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1996 ENCAL ENERGY LTD
ANNUAL REPORT TO SHAREHOLDERS

CORPORATE PROFILE | *Encal Energy Ltd. is a western Canadian based oil and gas exploration and production company, with an emphasis on successfully finding and efficiently producing reserves. Encal strives to be a top quartile performer in key industry performance metrics of production growth, finding costs, reserve additions, operating costs and general and administrative costs per barrel of oil equivalent of production. Encal Energy Ltd. is based in Calgary, Alberta, Canada and is publicly traded on the Toronto Stock Exchange, symbol ENL.*

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#67

PERFORMANCE

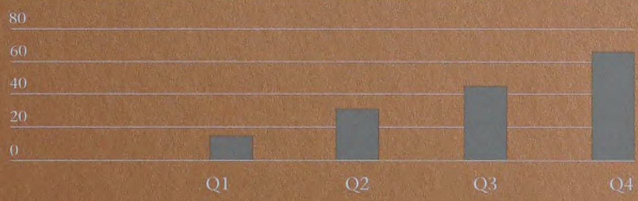
Encal Energy Ltd.

1996 QUARTERLY GROWTH

	1995 Annual	1996 Q1	Q2	Q3	Q4	Annual
Production						
Crude Oil *(bbls/d)*	5,236	5,680	5,331	5,271	5,447	**5,432**
Natural Gas *(mmcf/d)*	102.2	90.8	102.3	109.2	120.3	**105.7**
Natural Gas Liquids *(bbls/d)*	1,472	1,477	1,795	1,858	2,068	**1,800**
Total *(BOE/d)*	16,928	16,239	17,361	18,048	19,546	**17,803**

($ millions except per share amounts)						
Petroleum and Natural Gas Sales	98.3	27.7	29.1	29.2	38.3	**124.3**
Funds from Operations	44.9	15.1	16.0	14.6	20.5	**66.2**
Per Common Share						
Basic	0.43	0.15	0.15	0.14	0.20	**0.64**
Fully diluted	0.42	0.14	0.15	0.14	0.19	**0.62**

1996 QUARTERLY CASH FLOW *($ millions, cumulative)*



1996 QUARTERLY PRODUCTION GROWTH *(BOE/d)*

PERFORMANCE

Encal Energy Ltd.

YEAR-OVER-YEAR HIGHLIGHTS

($ thousands except per share amounts)	1996	1995
FINANCIAL		
Petroleum and Natural Gas Sales	124,294	98,359
Funds from Operations	66,195	44,910
Per Common Share – Basic	0.64	0.43
– Fully Diluted	0.62	0.42
Net Earnings (Loss)	11,518	(964)
Per Common Share – Basic	0.11	(0.01)
– Fully Diluted	0.11	(0.01)
Net Capital Expenditures	109,280	40,411
Long Term Debt	64,046	28,126
Net Asset Value	452,844	386,605
Per Share *($, fully diluted)*	4.12	3.58
Total Shareholders' Equity	261,962	249,928
Shares Outstanding *(thousands, at December 31)*		
Basic	103,992	103,835
Fully Diluted	109,922	108,059
Share Price ($)		
High	4.40	3.80
Low	2.65	2.47
Close	4.29	3.05
Equity Market Capitalization at Closing Price	446,126	316,697
PRICES		
Crude Oil *($/bbl after hedging gains/losses)*	24.08	21.51
Natural Gas *($/mcf)*	1.61	1.30
Natural Gas Liquids *($/bbl)*	20.72	15.46
RESERVES		
Crude Oil and NGLs *(mbbls)*		
Proven	19,748	17,516
Proven plus Probable	28,680	26,053
Natural Gas *(bcf)*		
Proven	351	300
Proven plus Probable	520	462
Undeveloped Land *(thousands of acres)*	600	501
DRILLING ACTIVITY *(net wells)*		
Crude Oil	24.9	21.7
Natural Gas	33.3	19.7
Dry Holes	25.5	17.9
Total	83.7	59.3
Success Rate *(percent)*	70	70

TO OUR SHAREHOLDERS

March 14, 1997

Planning for Growth

Encal continues to take a disciplined approach to the business. The efforts of the strategic planning process and implementation of internal projects have provided positive results during 1996 and have set the stage for near term profitable growth as well as positioning Encal for longer term potential.

We are pleased with the Company's progress during the year.

Achievements

Corporate

David D. Johnson
President and
Chief Executive Officer

- The sale of a 30 percent interest in Encal to a joint venture partnership of Ontario Teachers' Pension Plan Board and entities associated with the Bass Family of Fort Worth, Texas.
- Cash flow reached a record $66.2 million or $0.62 per share fully diluted, a 47 percent increase over 1995.
- Earnings totalled $11.5 million, $0.11 per share, up from a small loss in the prior year.
- Share price performance tracked corporate performance increasing 41 percent to $4.29 per share by year end.

Operations

- Production gains were recorded during each and every quarter of 1996; averaging over 1,000 barrels of oil equivalent per day gain per quarter.
- Fourth quarter production averaged 19,546 barrel equivalents per day representing a 20 percent increase over the first quarter of 1996.
- Encal's year end production target of 20,000 barrel equivalents was achieved during December 1996.
- Exploration activity reached record levels with the drilling of 83.7 net wells resulting in a 70 percent success rate.
- Proven reserves increased 15.4 percent replacing production by more than two fold during the year.
- Net asset value increased 15 percent to $4.12 per share.
- Net undeveloped land inventory showed a 20 percent increase to 600,500 acres.

British Columbia Acquisition

- The efforts of the year were topped off with the $45.4 million acquisition of a competitor's British Columbia assets adjacent to Encal's most active exploration region.
- The acquisition was announced December 24, 1996 and was effective January 1, 1997.

Change in Major Shareholder

The September 1996 transaction resulting in a new major shareholder for Encal was a significant event for the Company. In the transaction valued at $93.8 million, TMI-FW, Inc., in its capacity as advisor to Tundra Investors, L.P. (an investment firm principally owned by the Bass family of Fort Worth, Texas) and the Ontario Teachers' Pension Plan Board, acquired 30,074,139 common shares of Encal from MAAP Investment B.V. and affiliated entities, previously a holder of 32.9 percent of Encal's outstanding common stock. Mr. Thomas M. Taylor, who represents the Bass family investments, is now Encal's Chairman. The purchase by TMI reflects an important investor endorsement of the Company's current growth strategy. Through internal expansion and selective, external acquisition, Encal management expects to generate positive growth and to add value for shareholders.

Increased Investment Levels

During 1995, as a result of weaker commodity prices, Encal restricted capital spending to internally generated cash flow thereby entering 1996 with a very conservative balance sheet. This period of lower activity provided time for a rationalization and refocusing initiative which positioned Encal for increased efficiencies and future growth opportunities. Upon completion of this task and improving fundamentals, Encal increased net capital spending to $109.3 million for 1996.

This accelerated pace resulted in not only increased facility construction allowing the achievement of our year end production target of 20,000 barrel equivalents per day but also provided record exploratory drilling levels and the acquisition of core area undeveloped lands and geophysical data.

For 1997, we will maintain a high activity level with a net capital budget of $135.0 million including $110.0 million in exploration and development expenditures plus $45.4 million for our January 1, 1997 British Columbia acquisition. The investment will be funded by cash flow, existing credit lines and non-core dispositions of approximately $20.0 million.

Production Growth Focus

First quarter 1996 production dropped to 16,239 barrel equivalents per day, down 900 barrel equivalents per day from the fourth quarter of 1995 as a result of the disposal of non-core producing assets in eastern Alberta and the previously disclosed loss of productivity in the Sahtaneh well in northeastern British Columbia. In spite of this reduction, Encal was able to layer production additions from exploration and exploitation opportunities each and every quarter during 1996, with average production gains of over 1,000 barrel equivalents per day per quarter by year end. The largest production additions were at Cutbank, Modeste, Clearhills, Wapiti and Oak. The British Columbia acquisition added to this growth trend. Encal's production capacity in January 1997 was in the order of 22,000 barrel equivalents per day.

Reserves and Finding Costs

Proven plus probable reserve additions inclusive of disposition activity and revisions of prior period estimates reached 5.3 million barrels of crude oil and natural gas liquids and 96.7 billion cubic feet of natural gas. These net additions replaced the year's production by 230 percent.

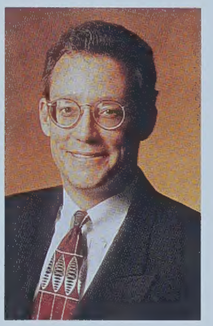
Finding costs for 1996 were $5.84 per barrel equivalent for proven reserves and $5.44 per barrel equivalent for proven plus probable reserves. Full cycle finding and development costs for proven reserves were $7.85 per barrel equivalent while proven plus probable reserves were $7.31 per barrel equivalent.

Although the costs were higher than we are accustomed to, there were several extenuating factors contributing to the increased replacement costs:

- The 1996 exploration program yielded only moderate drilling results.
- Facility and construction costs were doubled in a deliberate effort to provide continuous production growth.
- Increased land purchases and geophysical activities, particularly in the fourth quarter of the year, resulted in a 260 percent increase over 1995 levels.

Increases in the above non-reserve generating expenditures reduced the proportion of drilling spending to 38 percent of 1996 net capital. In 1997 we look forward to an increased drilling component of 55 percent of exploration and development capital as well as the opportunity to evaluate lands purchased during 1996.





From left to right:
Steve Allaire
Vice President, Finance and CFO
Terry Barrows
Vice President, Production
Peter Carwardine
Vice President, Land and Corporate Development
Michael Culbert
Vice President, Marketing
James Reimer
Vice President, Exploration

Financial

Financial results for the year were above forecast in all categories fueled by both strong commodity prices as well as natural gas and liquids production gains. Fully diluted cash flow per share increased 47 percent to $0.62 while earnings reached $0.11 per share compared to a loss of $0.01 per share the prior year. Operating costs declined to $4.29 per barrel of oil equivalent during 1996 from $4.46 per barrel of oil equivalent in 1995 as a result of improved efficiencies. The Company ended the year with long term debt of $64.0 million or approximately one times 1996 cash flow of $66.2 million. The Company will fund its 1997 net capital program of $135.0 million using cash flow and additional debt, and forecasts December 31, 1997 debt levels at $120.0 million.

Core Area Activity

As in 1995, Encal focused its efforts on its three growth areas of Fort St. John, British Columbia and the Peace River and West Central areas of Alberta. Over 90 percent of all reserve additions were in these three areas. An emphasis on project control continued with 83 percent of the net wells drilled and operated by Encal at an average working interest of 81 percent.

The Fort St. John area led the year with reserve additions of 7.4 million barrel equivalents. The Oak area provided additions of 30 billion cubic feet from both exploration and development drilling primarily in the Baldonnel and Cadomin horizons, which for the most part, were quickly tied in to the Company's existing infrastructure of gathering systems and

natural gas facilities. Development drilling and waterflood implementation in the Rigel "B" pool provided reserve gains while a new pool discovery in the fourth quarter in the area should result in reserve additions in 1997.

The new pool discovery achieved during the first quarter of 1996 in the Redeye area, north of Fort St. John, positioned the Company for an aggressive program for the winter of 1996-1997. In total, a program of 14 wells has been drilled concurrently with the construction of a new gathering system and compression facility. To date at least seven new pools have been discovered with production expected in June of this year. The gas plant capacity will be determined once the well testing program has been completed in the first quarter of 1997. In total 11 wells will be drilled before spring break-up in 1997. British Columbia will continue to be a primary growth area for Encal in 1997.

The West Central area put in another solid performance during 1996 with growth in both natural gas and natural gas liquids production. Reserves of 6.4 million barrel equivalents were added with the largest contribution being the Modeste Creek area with 17 billion cubic feet and 600 barrels of natural gas liquids added through a combination of exploratory and development drilling. By year end, this project established itself as Encal's largest producing asset with capability of 24 million cubic feet per day and 550 barrels of natural gas liquids per day.

Wilson Creek provided both crude oil and natural gas reserve gains totaling over 1.7 million barrel equivalents utilizing a combination of drilling and small acquisitions. In total 35 wells are targeted in the West Central area focusing on the Mississippian subcrop edge play.

The Peace River area continued to be a very competitive region. Encal's operations are not as concentrated as Fort St. John, British Columbia and West Central Alberta. The Clearhills area contributed 52 percent of new drilling reserves with additions of 12 billion cubic feet and 430,000 barrels of liquids. The balance of reserve additions were secured through development drilling at Cutbank River and an exploratory success in the Dunvegan area. Drilling plans for the Peace River area include 20 tests for 1997.

British Columbia Asset Acquisition

Encal's acquisition strategy is simple. We are focused on increasing our working interest as well as production and land base in all core districts. During 1996 numerous small acquisitions and swaps were completed in accordance with this strategy. The acquisition of a large asset base acquired from a competitor was announced December 24, 1996 and has made a very positive impact on Encal's British Columbia operations. The $45.4 million acquisition, effective January 1, 1997, has increased our production rate by 10 percent to 22,000 barrel equivalents per day. Encal will continue to aggressively pursue its acquisition strategy to supplement base exploration growth in areas where the Company can add value. Other assets acquired in the package include oil processing and compressor facilities, 81,000 net acres of undeveloped land and approximately 1,000 kilometres of seismic data, which are valued by Encal at approximately $12 million.

Outlook

Our industry is one of the most technical and competitive in the world. Increased activity levels have placed a strain on both available drilling and service equipment as well as qualified and experienced employees. In addition, commodity price realizations have the potential to

be rather cyclical. Encal addresses these issues in its business plan and has taken steps to mitigate the impact to the company.

The focus on three core areas provides the advantage of concentrated efforts and operations. As an active exploration company, Encal has utilized several drilling contractors with rigs which are suited to our program for the past several years. This allows for efficient equipment utilization and reduced costs. With the increased demand for drilling rigs currently being experienced, Encal has secured sufficient rigs on a long term basis. All of these rigs have been under contract with Encal over the past year.

The best protection on commodity price risk is an efficient capital and operating cost structure. The core area concept is Encal's best defense and provides the opportunity to support continuous improvement due to the constant efforts to consolidate and increase area dominance. These initiatives were a focus during 1996 and will continue in 1997.

Encal's work force is critical to its success. Today's professionals are aggressive, exciting individuals, who demand personal satisfaction and challenge in their careers. In response, Encal has organized its technical and negotiating staff into multi-discipline growth groups with specific area responsibility. This style of organization allows for clear goal focus and the recognition of achievements. We are excited about the potential of the growth groups.

Encal also believes that in order to ensure cash flow levels are available for reinvestment some level of hedging is prudent. Where possible, commodity pricing, foreign exchange and interest rate exposures will be hedged in part to protect budgeted revenues.

The budgeted crude oil price for 1997 is US$21.00 per barrel compared to US$22.01 per barrel realized in 1996. Encal has hedged 23 percent of the current year crude oil production using a combination of swaps and collars resulting in a floor price of US$20.00 per barrel and a ceiling price of US$21.42 per barrel. Natural gas wellhead prices are budgeted at $1.60 per thousand cubic feet which, given the strength in the first quarter, may be considered conservative.

As we look forward to our busiest year ever with the drilling of 110 to 125 net wells and a multitude of construction projects, Encal has the team, financing and equipment to continue to meet our growth objectives.

The future does look promising for Encal. The Company has a strong foundation of solid assets, a large inventory of undeveloped land and exploration prospects, a clear focus on per share growth, an enthusiastic and talented work force and the support and clear direction by its Board and major shareholder.

Together we look forward to realizing our potential.

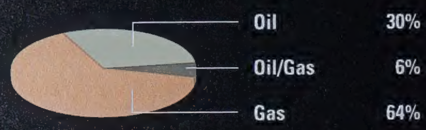
On behalf of the Board,

David D. Johnson

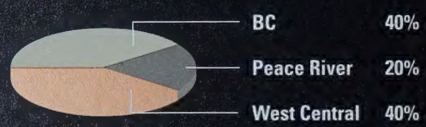
President and CEO

1997 CAPITAL PROGRAM

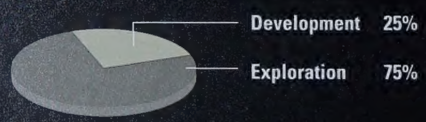
EXPLORATION MIX BY PRODUCT



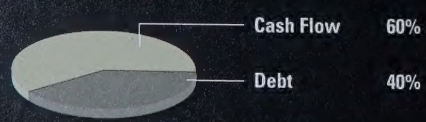
EXPLORATION MIX BY CORE AREA



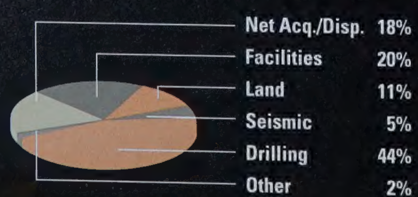
EXPLORATION MIX BY PROJECT TYPE



1997 CAPITAL PROGRAM FINANCING



1997 CAPITAL EXPENDITURE PROGRAM



FORT ST. JOHN

Redeye
- new exploration area
- 14 wells drilled Q1 97
- onstream June 97

Beatton
- newly acquired crude oil production and treatment facilities
- production at 865 BOE/d

Bulrush
- newly acquired gas property under exploration
- 4 wells drilled Q1 97
- 8.5 mmcf/d by spring 1997

Rigel
- new oil pool discovered Q4 96 offsetting operated oil pool under waterflood
- exploitation Q2/Q3 97

Oak
- newly expanded compression facility
- multi zone exploitation area

PEACE RIVER

Clearhills
- expanded gas facility
- new discoveries will be on production by Q2 1997

Cutbank
- tied in 11 liquids-rich gas wells in June 1996 with additional development in 1997

Colorado
- new shallow gas exploration area
- 5 wells drilled Q1 97

AND CORE GROWTH AREAS

WEST CENTRAL

Cherhill
- expanded area control through acquisition
- exploration activity ongoing

Modeste
- single largest gas and liquids producing property
- extensively developed in 1996
- production capacity of 24.0 million cubic feet per day of natural gas and 550 barrels of liquids

Wilson Creek
- significant producing area, additional exploration potential

Westerose
- exploitation potential
- large oil property with optimization potential in 1997

Columbia
- 5 wells planned
- long life, liquids-rich gas reserves

OPERATIONS REVIEW

[illegible] continues to have an impact on for Encal with increases to both production and reserves. The following pages the activity in 1996 in these areas as well as providing the year's results and describing opportunities for growth in the future.

REVIEW

Sustaining Growth

OF OPERATIONS

Encal's activity levels were significantly increased during 1996 showing strong gains in production and reserves resulting in new prospects for 1997 and future years.

The business plan was developed to target growth driven from internally generated and controlled opportunities in the three core areas of Fort St. John, British Columbia and the Peace River and West Central areas of Alberta. The integration of all disciplines including exploration, engineering, field operations, negotiations, finance and marketing is key to Encal's strategy. The consistent production gains achieved during each quarter demonstrate that the rationalization and refocusing efforts of the prior year are paying off. Consistent profitable growth with attention to improved efficiencies will continue to be the focus of our efforts.

Drilling Activity

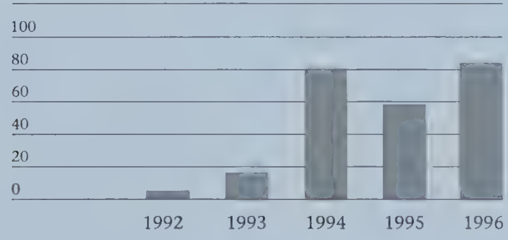
1996 CORE AREA DRILLING ACTIVITY

	Gross	Net
Growth Areas		
British Columbia	26	19.08
Peace River Alberta	32	15.01
West Central Alberta	41	28.35
	99	62.44
Other Areas		
Provost Alberta	30	13.25
Misc Alberta and Saskatchewan	14	8.01
	44	21.26
Total	143	83.70

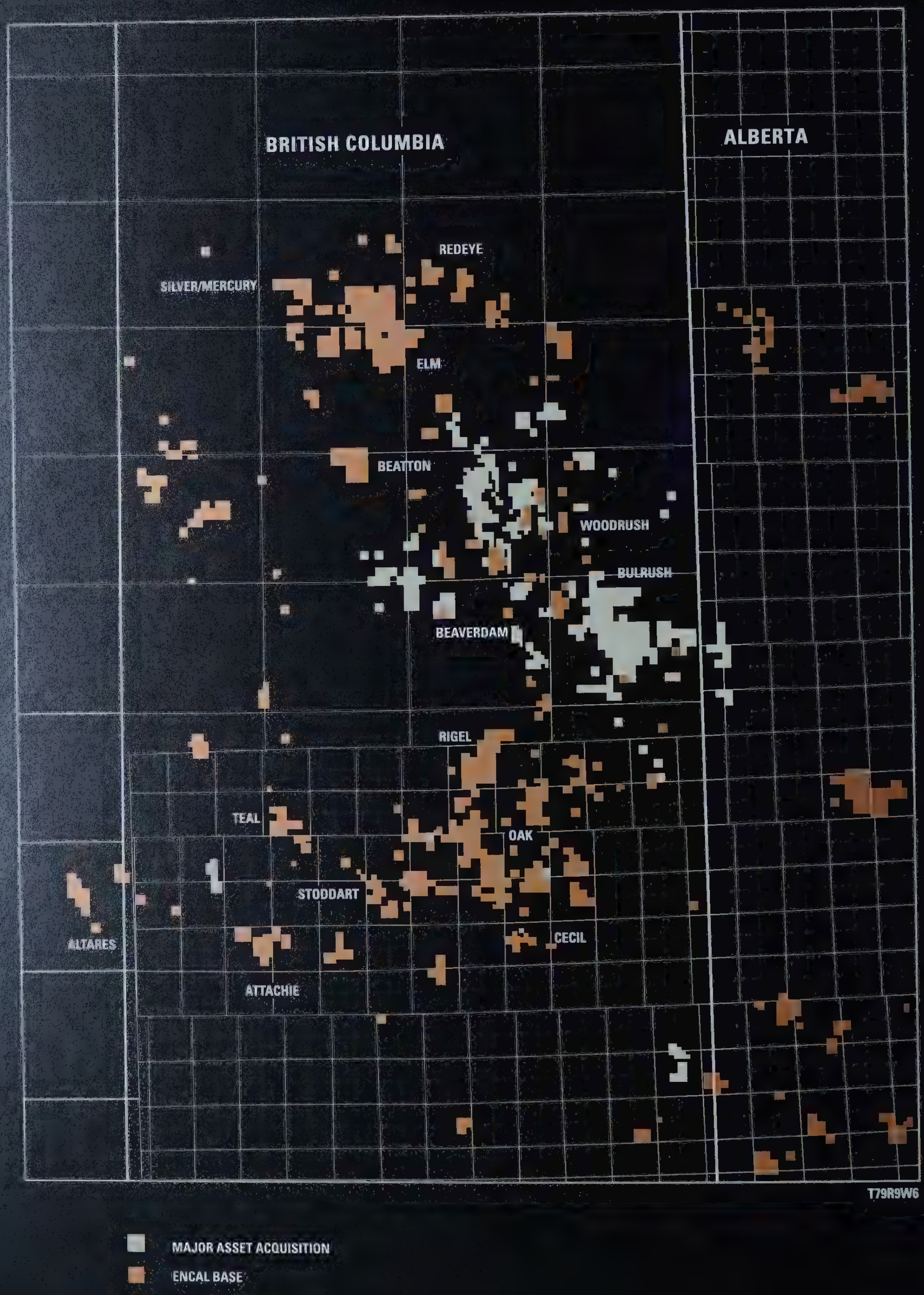
DRILLING RESULTS

	1996		1995	
	Gross	Net	Gross	Net
Natural Gas	**54**	**33.3**	50	19.7
Crude Oil	**49**	**24.9**	52	21.7
Dry and Abandoned	**40**	**25.5**	29	17.9
Total	**143**	**83.7**	131	59.3
Success Rate *(%)*	**72**	**70**	78	70

DRILLING ACTIVITY *(number of net wells)*



BRITISH COLUMBIA



REVIEW
Record Pace Set
OF ACTIVITY

BRITISH COLUMBIA

Highlights

- The Fort St. John, British Columbia area provided the largest reserve gain in 1996.
- Total proven plus probable reserve additions from operations were 52.2 billion cubic feet of natural gas and 2.2 million barrels of crude oil and natural gas liquids.
- The 1996 exploration program resulted in the discovery of four new pools.
- Production as of January 1, 1997 reached 25.6 million cubic feet of natural gas per day and 2,634 barrels of crude oil and natural gas liquids inclusive of the major acquisition.
- Proven plus probable reserves, inclusive of the acquisition, are 26.0 million barrels of oil equivalent.
- Encal operates 98 percent of its asset base in British Columbia.

Encal's British Columbia growth area is in the vicinity of Fort St. John and offers multi-zone, natural gas and crude oil potential. Encal has experienced continual reserve additions and production growth in this core area. New pool discoveries in each of the last five years have generated substantial development opportunities. Activity highlights include a new pool discovery in the Rigel area while further development was conducted at Oak, Montney and Cecil Lake with an active drilling and recompletion program targeting natural gas horizons once considered to be secondary targets. By year end production gains from these projects totalled 5.6 million cubic feet per day of natural gas and 200 barrels per day of crude oil and natural gas liquids. Production from the Cecil Lake development project commenced February 1997 at 4.0 million cubic feet per day of natural gas and 20 barrels per day of crude oil.

For 1997, Encal will continue with an aggressive drilling program in British Columbia. The winter access only area north of Fort St. John will have 22 wells drilled by spring breakup while closer to Fort St. John, the drilling program will continue in June and include 15 wells by year end.

Of particular interest for 1997 is the Redeye project. A concurrent effort of exploration and development drilling, pipeline construction, and natural gas facility installation is now underway. The objective is to fast track this project thereby bringing the production to market a full year earlier.

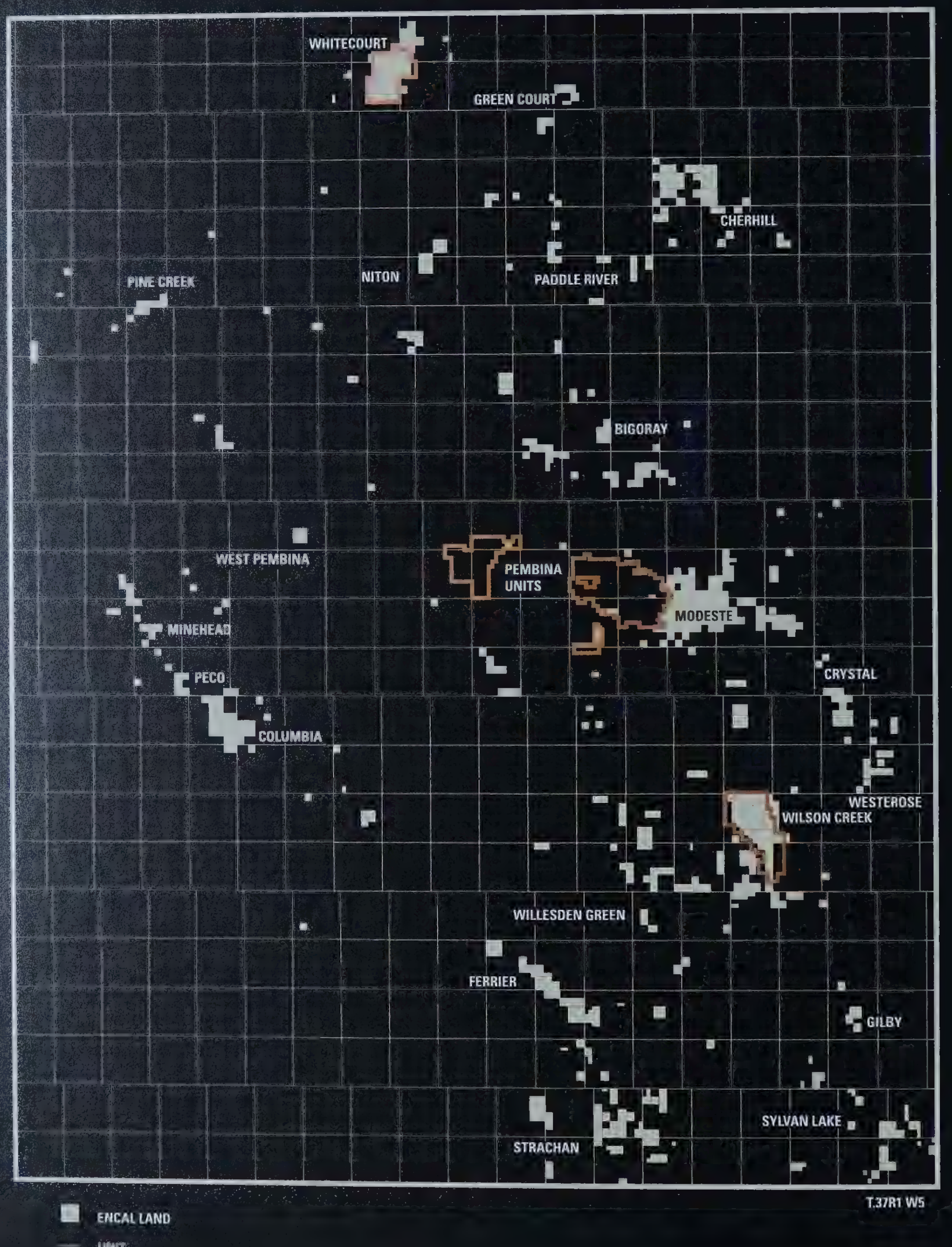
The project is proceeding successfully with compressor station sizing dependent upon the ongoing well testing program. Initial production is expected in June of this year.

Major Asset Acquisition

On December 24, 1996 the Company announced the acquisition of a significant package of producing properties, undeveloped land, processing and gathering facilities, infrastructure and other assets. The properties are located in the Fort St. John region of northeast British Columbia. The transaction closed on January 31, 1997 with an effective date of January 1, 1997.

The acquisition provides Encal with the opportunity to increase its area dominance and to add value in a core growth area where it has considerable exploration and operating experience.

WEST CENTRAL ALBERTA



The transaction is valued at $45.4 million and provides the Company with additional production of 930 barrels of crude oil per day and 8.5 million cubic feet of natural gas per day. Third party reserve data indicates proven reserves of 5.4 million barrels of oil equivalent, and probable reserves of 1.7 million barrels of oil equivalent. Other assets acquired in the package include Encal-operated oil processing and gas compressor facilities, 81,000 net acres of undeveloped land and approximately 1,000 kilometres of seismic data, which are valued by Encal at approximately $12 million.

The acquisition is of strategic importance to Encal because the acquired properties are contiguous to Company production and land holdings and therefore offer significant potential for operating synergies. The acquired production includes primarily operated wells with high working interests in the Beatton River and Bulrush areas. Many drilling and recompletion opportunities on these acquired properties have been identified for implementation during 1997 and the winter season of 1998.

WEST CENTRAL

Highlights

- Production increased 27 percent to 6,513 barrels of oil equivalent per day during the fourth quarter 1996 compared to 5,140 barrels of oil equivalent per day during the same period in 1995.
- Total proven plus probable reserve additions from operations were 44.1 billion cubic feet of natural gas and 1.7 million barrels of crude oil and natural gas liquids.
- Daily production averaged 45.7 million cubic feet per day of natural gas and 2,407 barrels of crude oil and natural gas liquids per day in December 1996.
- During 1996, Encal drilled 11 natural gas wells in the Modeste area. In this area significant gas gathering system expansion was completed including the tie-in of four operated natural gas wells.
- At December 31, 1996, the Modeste area had production capability of 24.0 million cubic feet per day of natural gas and 550 barrels of natural gas liquids per day.
- During 1997, the drilling of four wells at Modeste are planned as well as additional compression and equalization into existing facilities.
- At Cherhill, interests in production and facilities were acquired in three separate transactions during 1996 resulting in 5.0 million cubic feet per day of operated natural gas production. Encal previously had only a small non-operated interest in these lands.
- During 1996, Encal acquired 55,646 net acres of undeveloped land in the area.

Approximately $35.0 million of the Company's 1997 capital program is dedicated to this area with the drilling of up to 40 wells planned. The activity will be directed to the following areas: at Modeste/Wilson Creek/Rose Creek/Paddle River, 24 wells are planned targeting Mississippian gas; at Wilson/Westerose/Rose Creek, 11 wells are planned targeting Mississippian and Mannville oil and at Columbia five wells are planned targeting Elkton and Cardium gas.

PEACE RIVER

Highlights

- Production increased 36 percent to 4,803 barrels of oil equivalent per day during the fourth quarter of 1996 compared to 3,519 barrels of oil equivalent per day during the same period in 1995.
- Total proven plus probable reserve additions from operations were 20.8 billion cubic feet of natural gas and 749,000 barrels of crude oil and natural gas liquids.
- The 1996 exploration program resulted in the discovery of four new pools at Clearhills that added 5.0 million cubic feet per day of natural gas and 150 barrels per day of crude oil and natural gas liquids production during 1996. Several additional prospective leads along this reef trend have been identified and will result in 1997 activity in the area.
- At Cutbank, in the southern Peace River region, successful development drilling during 1996 combined with facility construction resulted in the tie-in of 11 natural gas wells in July 1996. This area is currently producing 6.0 million cubic feet per day of natural gas and 345 barrels of natural gas liquids per day. During 1997 further development and exploratory drilling is planned for the area and four existing natural gas wells will be tied-in by spring 1997.
- At December 31, 1996, the Company had 158,000 of net undeveloped acres of land in the Peace River area. During 1996, Encal acquired 54,906 net acres of undeveloped land in the area.

Approximately $20.0 million of the Company's 1997 capital program is dedicated to this area with 20 wells planned. The activity will include: at Cutbank, seven wells will target the Chinook sand; at Dunvegan, three Kiskatinaw tests are planned; at Clearhills, three Leduc tests, and in northern Peace River, seven wells will test the Bluesky horizon.

The Peace River area is very competitive and Encal will focus its activity on smaller regional pockets where it has traditionally been successful, controls facilities or has the ability to assemble sufficient mass to control a smaller regional area.

LAND

Encal's land program increased significantly in scope and activity level in 1996. The program is very clearly directed, allowing for a more effective use of the land acquisition budget and more expedient property disposition activity. In 1996, Encal invested $18.6 million on undeveloped land, participating selectively at land sales through the year with acquisitions in defined growth areas at an average working interest of over 92 percent. With over 185,000 net acres

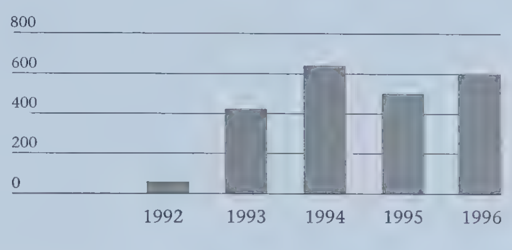
SUMMARY OF 1996 CROWN LAND ACQUISITIONS BY AREA

	Gross Acres	Net Acres	Net Dollars	Percentage
Growth Areas				
British Columbia	60,948	56,354	6,569,000	35
Peace River Alberta	63,259	54,906	4,633,000	25
West Central Alberta	58,831	55,646	5,989,000	32
	183,038	166,906	17,191,000	92
Other Areas				
Provost Alberta	–	–	–	–
Misc. Alberta and Saskatchewan	18,931	18,931	1,413,000	8
	18,931	18,931	1,413,000	8
	201,969	185,837	18,604,000	100

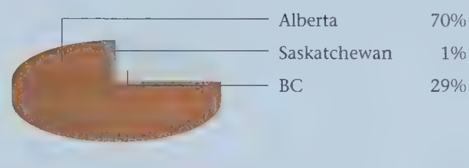
acquired, the average cost of acquisitions was $100 per acre. That cost, on average, reflects an increase from prior years due to Encal focusing its activity in competitive areas and the overall strength of the oil and gas industry. It is not anticipated that land costs will drop in the near future, however Encal's land sale participation will be proportionately smaller in 1997, particularly as a result of 1996 initiatives as well as the addition of significant undeveloped lands through the property acquisition in British Columbia effective January 1, 1997. The valuation of the British Columbia acquisition allowed for an assignment of $60 per acre for 81,000 net acres of undeveloped land which is less than the price that would have been paid by bidding on posted land. The addition of this undeveloped acreage in a core area was a very attractive component of the British Columbia asset purchase.

Through 1996, Encal sold 31,078 net undeveloped acres while 59,875 net acres expired. Encal ended 1996 with a total of 600,502 net undeveloped acres of land which represents a sound base for future exploration and development. At 681,502 net undeveloped acres, including the January 1, 1997 asset purchase, Encal has an acreage position which supports up to two years of drilling activity based on current inventory of land and identified drilling opportunities. The land investment process is one of improving the quality of the inventory based on the strategic focus of Company activity.

UNDEVELOPED LAND *(thousand of net acres)*



UNDEVELOPED LAND
BY PROVINCE *(net acres)*



UNDEVELOPED LAND CONTINUITY

	Gross Acres	Net Acres
December 31, 1995	1,137,573	501,041
Development	(46,080)	(29,064)
Purchases/Additions	252,905	219,478
Expiries/Deletions	(143,149)	(59,875)
Disposals	(68,913)	(31,078)
December 31, 1996	1,132,336	600,502

Production

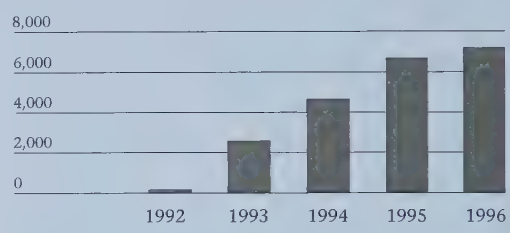
Average 1996 production was 17,803 barrels of oil equivalent per day compared to 16,928 barrels of oil equivalent per day in 1995, an increase of five percent. First quarter 1996 production dropped to 16,239 barrels of oil equivalent per day down 900 barrels of oil equivalent per day from the fourth quarter of 1995. The disposal of non-core producing assets in eastern Alberta and the previously disclosed loss of production from the Sahtaneh well in northeastern British Columbia were more than offset by production gains achieved during the year. Fourth quarter 1996 production averaged 19,546 barrels of oil equivalent compared to 16,239 barrels of oil equivalent in the first quarter of 1996, representing an increase of 20 percent.

Production increases came from the growth areas with these areas contributing 76 percent of fourth quarter 1996 production compared to 68 percent during the same period in 1995 and 60 percent in 1994.

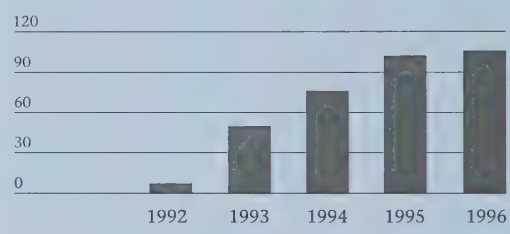
During the year, the Company added 57.2 million cubic feet per day of natural gas and 2,331 barrels per day of oil and natural gas liquids to its production base. Production additions came from core area activities at Cutbank, Modeste, Clearhills, Wapiti and Oak.

Average decline rates for the Company are approximately 22 percent for natural gas and associated liquids and 20 percent for crude oil.

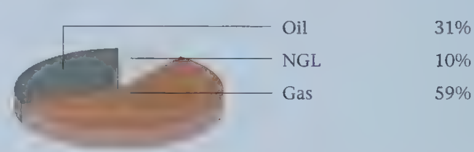
OIL AND NGL PRODUCTION *(bbls/d)*



NATURAL GAS PRODUCTION *(mmcf/d)*



1996 DAILY PRODUCTION



PRODUCTION SUMMARY

Average	Fourth Quarter 1996	1996	1995
Crude Oil *(bbls/d)*	5,447	5,432	5,236
Natural Gas *(mmcf/d)*	120.3	105.7	102.2
Natural Gas Liquids *(bbls/d)*	2,068	1,800	1,472
BOE/d	19,546	17,803	16,928

FOURTH QUARTER 1996 PRODUCTION BY AREA

	Natural Gas *(mmcf/d)*	Natural Gas Liquids *(bbls/d)*	Crude Oil *(bbls/d)*	*(BOE/d)*
Growth Areas				
British Columbia	17.5	151	1,553	3,454
Peace River Alberta	31.3	785	888	4,803
West Central Alberta	42.6	927	1,325	6,513
	91.4	1,863	3,766	14,770
Other Areas				
Provost Alberta	1.6	12	1,216	1,388
Misc Alberta and Saskatchewan	27.3	193	465	3,388
	120.3	2,068	5,447	19,546

FOURTH QUARTER 1995 PRODUCTION BY AREA

	Natural Gas *(mmcf/d)*	Natural Gas Liquids *(bbls/d)*	Crude Oil *(bbls/d)*	*(BOE/d)*
Growth Areas				
British Columbia	14.9	118	1,383	2,991
Peace River Alberta	19.9	397	1,132	3,519
West Central Alberta	28.3	799	1,511	5,140
	63.1	1,314	4,026	11,650
Other Areas				
Provost Alberta	1.9	13	1,260	1,463
Misc Alberta and Saskatchewan	34.0	72	555	4,027
	99.0	1,399	5,841	17,140

PRODUCTION BY QUARTER

	Three Months Ended 1996				Annual
	March 31	June 30	Sept. 30	Dec. 31	**1996**
Natural Gas *(mcf/d)*	90,817	102,347	109,185	120,306	**105,713**
Crude Oil *(bbls/d)*	5,680	5,331	5,271	5,447	**5,432**
Natural Gas Liquids *(bbls/d)*	1,477	1,795	1,858	2,068	**1,800**
Total *(BOE/d)*	16,239	17,361	18,048	19,546	**17,803**

PRODUCTION RECONCILIATION

	Natural Gas *(mmcf/d)*	Crude Oil and Natural Gas Liquids *(bbls/d)*	Equivalent Production *(BOE/d)*
Production Fourth Quarter 1995	99.0	7,240	17,140
Decline on Base Production	(22.0)	(1,450)	(3,650)
Production Additions During 1996	48.0	2,000	6,800
Acquisitions During 1996	9.2	331	1,251
Total Production Additions	57.2	2,331	8,051
Decline on 1996 Production Additions	(7.5)	(340)	(1,090)
Dispositions	(6.4)	(265)	(905)
Production Fourth Quarter 1996	120.3	7,516	19,546

Reserves

The crude oil and natural gas reserves of the Company were evaluated, effective December 31, 1996 by Gilbert Laustsen Jung Associates Ltd., independent petroleum engineering consultants.

At year end 1996, Encal's proven plus probable crude oil and natural gas liquids reserves increased 10 percent to 28.7 million barrels from 26.1 million barrels in 1995. Proven plus probable natural gas reserves increased 13 percent to 520 billion cubic feet from 462 billion cubic feet at December 31, 1995. During 1996, the Company replaced 199 percent of its crude oil and natural gas liquids production and 250 percent of its natural gas production on a proven plus probable basis. The Company's reserve life index is 7.5 years for proven and 10.9 years for proven plus probable oil and natural gas liquids reserves and 9.1 years for proven and 13.5 years for proven plus probable natural gas.

The 1996 reserves evaluation does not include the impact of the $45.4 million purchase of assets in British Columbia announced in December 1996, effective January 1, 1997. A total of 5.4 million barrels of proven oil equivalent reserves and 7.1 million barrels of proven plus probable oil equivalent reserves were added effective January 1, 1997.

PRESENT VALUE OF RESERVES

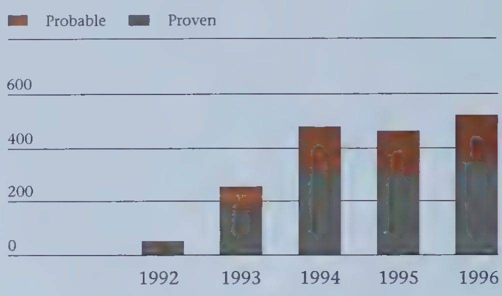
	Discount Factor		
($ millions, before income taxes)	0%	10%	15%
Proven	732	411	339
Probable	422	160	117
Total	1,154	571	456

RESERVE VALUE RECONCILIATION

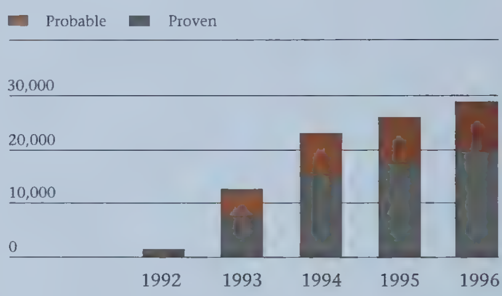
($ thousands, before income taxes)

Reserve Value – Proven plus Probable at December 31, 1995 – (NPV 15%)	363,000
Net Present Value of 1996 Production	(77,000)
Net Present Value of 1996 Reserve Additions	186,000
Change in Value due to Pricing	(16,000)
Reserve Value – Proven plus Probable at December 31, 1996 – (NPV 15%)	456,000

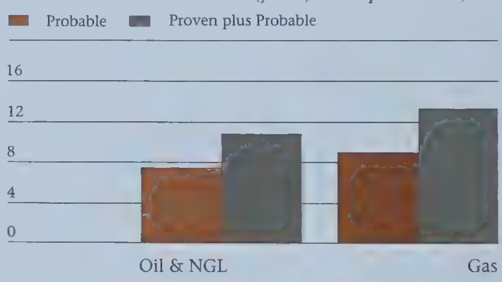
NATURAL GAS RESERVES *(bcf)*



OIL AND NGL RESERVES *(mbbls)*



RESERVE LIFE INDEX *(years, 1996 production)*



RESERVES BY AREA – DECEMBER 31, 1996

	Oil and Natural Gas Liquids *(mbbls)*			Natural Gas *(bcf)*		
	Proven	Probable	Proven Plus Probable	Proven	Probable	Proven Plus Probable
Growth Areas						
British Columbia	5,215	2,220	7,435	78.9	35.4	114.3
Peace River Alberta	4,146	2,243	6,389	82.0	41.3	123.3
West Central Alberta	7,406	3,020	10,426	133.5	56.1	189.6
	16,767	7,483	24,250	294.4	132.8	427.2
Other Areas						
Provost Alberta	1,688	875	2,563	4.3	2.6	6.9
Misc. Alberta and Saskatchewan	1,293	574	1,867	52.6	33.4	86.0
	2,981	1,449	4,430	56.9	36.0	92.9
	19,748	8,932	28,680	351.3	168.8	520.1

1996 NET RESERVE ADDITIONS BY AREA

	Proven		Proven Plus Probable	
	Oil & NGL *(mbbls)*	Gas *(bcf)*	Oil & NGL *(mbbls)*	Gas *(bcf)*
Growth Area				
British Columbia	1,539	30.6	2,175	38.3
Peace River Alberta	867	17.1	749	14.4
West Central Alberta	1,809	48.1	1,775	55.9
	4,215	95.8	4,699	108.6
Other Areas				
Provost Alberta	472	0.6	444	1.1
Misc Alberta and Saskatchewan	192	(5.9)	131	(13.0)
	4,879	90.5	5,274	96.7

RESERVE RECONCILIATION

	Oil and Natural Gas Liquids *(mbbls)*			Natural Gas *(bcf)*		
	Proven	Probable	Proven Plus Probable	Proven	Probable	Proven Plus Probable
December 31, 1994	15,496	7,580	23,076	313.84	163.66	477.50
Extensions and Discoveries	4,309	1,279	5,588	37.73	12.60	50.33
Technical Revisions	(143)	(244)	(387)	(5.16)	(7.56)	(12.72)
Acquisitions	677	121	798	3.69	2.43	6.12
Dispositions	(375)	(199)	(574)	(13.26)	(8.50)	(21.76)
Reserve Additions	4,468	957	5,425	23.00	(1.03)	21.97
Production	(2,448)	–	(2,448)	(37.30)	–	(37.30)
December 31, 1995	17,516	8,537	26,053	299.54	162.63	462.17
Extensions and Discoveries	3,380	946	4,326	62.02	18.81	80.83
Technical Revisions	700	(776)	(76)	6.90	(16.97)	(10.07)
Acquisitions	1,424	502	1,926	34.12	8.20	42.32
Dispositions	(625)	(277)	(902)	(12.57)	(3.85)	(16.42)
Reserve Additions	4,879	395	5,274	90.47	6.19	96.66
Production	(2,647)	–	(2,647)	(38.69)	–	(38.69)
December 31, 1996	19,748	8,932	28,680	351.32	168.82	520.14

Pricing Forecasts

Commodity price forecasts did not have a significant impact on the value of the December 31, 1996 reserves. The net present value of the reserves decreased $16.0 million as a result of changes to the pricing forecast year over year.

GILBERT LAUSTSEN JUNG ASSOCIATES LTD. PRICING ASSUMPTIONS

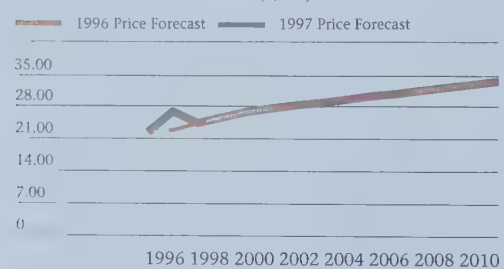
Year	Crude Oil[1] *(US$/bbl)*	Crude Oil[2] *(CDN$/bbl)*	Natural Gas[3] *(CDN$/mmbtu)*
1997	21.00	27.25	1.70
1998	19.00	24.75	1.75
1999	20.00	26.00	1.85
2000	21.00	27.25	2.00
2001	21.50	28.00	2.25
2002	22.00	28.75	2.35
2003	22.50	29.50	2.50
2004	23.00	30.00	2.60
2005	23.50	30.75	2.70
2006	24.00	31.25	2.75
Thereafter	+2.0%/yr	+2.0%/yr	+2.0%/yr

[1] *West Texas Intermediate at Cushing, Oklahoma*

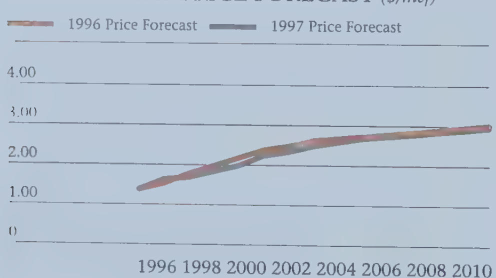
[2] *Light Sweet at Edmonton, Alberta*

[3] *TransCanada Gas Services at NOVA receipt point and 1,000 BTU/SCF*

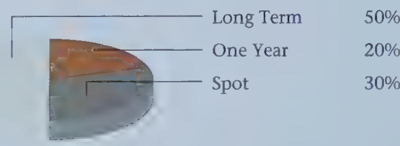
OIL PRICE FORECAST *($/Bbl)*



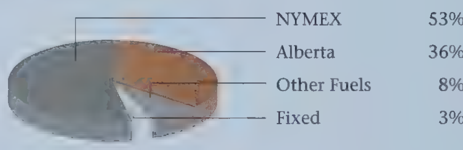
NATURAL GAS PRICE FORECAST *($/mcf)*



1997 NATURAL GAS CONTRACT TERMS



1997 NATURAL GAS CONTRACT TERMS



Marketing

Encal's marketing strategy meets three general objectives: to develop a diversified market portfolio for risk management purposes, maximize netbacks and minimize production interruptions. As the Company grows, its marketing activity increases and plays a more significant role in value creation. To achieve the three objectives, a focused marketing plan is in place that will create growth opportunities for new Encal production.

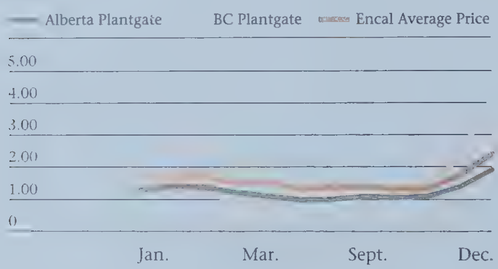
Natural Gas Marketing Activity

Maximizing sales revenue is achieved by balancing a portfolio of many types and terms of contracts, price mechanisms, end-users and geographic markets. Portfolio diversification is key to maximizing upside price opportunities and managing the risk associated with commodity price swings. Encal's diversification strategy is reflected in the relatively balanced mix of geographic markets and types of buyers. As well, price hedging transactions are being increasingly used in order to ensure the operating budget is in place. With a diverse market for production, Encal insulates itself from radical downward price fluctuations while remaining positioned to capture the benefit of price increases. The 1996 marketing results reflect the balanced mix of contracts and buyers and relatively high prices received for natural gas.

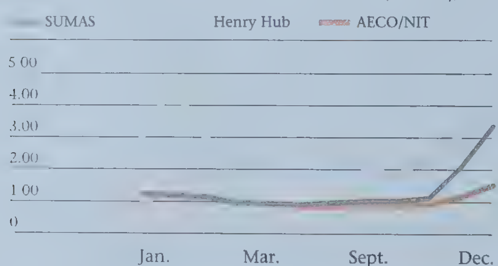
Natural Gas Markets

Price trend analysis is key to anticipating market volatility and maximizing price opportunity. Encal's marketing activity plays a key role in corporate planning and the Company's long-range growth strategy. Encal's sizeable British Columbia asset base and prevailing lower revenue realization in British Columbia created an opportunity to acquire competitors' assets at an attractive price. Operating synergies have reduced the per unit cost of operations and Encal has realized significant price increases in British Columbia as the markets have strengthened late in 1996 and early in 1997.

1996 CANADIAN NATURAL GAS PRICING *(CDN$/mcf)*



1996 US NATURAL GAS PRICING *(US$/mcf)*



CRUDE OIL MARKETING ACTIVITY

Crude oil production from Alberta and B.C. is marketed to refiners and selected brokers. Encal's production base is almost exclusively medium and light crude which results in higher sales prices and removes the potential impact of an increase in heavy oil to light oil price differentials. To mitigate risk, Encal has diversified its crude oil sales by crude quality and pipeline stream as well as by contract term. Pricing is based on industry postings.

DELIVERABILITY AND DISTRIBUTION

Much of marketing activity focuses on transportation and deliverability issues. For both crude oil and natural gas, risk of supply interruptions must be mitigated. A dependence on pipelines to transport production to end-users requires pipeline system knowledge, strong relationships and continuous monitoring of production capability. In 1996, crude oil pipeline apportionment did not impact Encal's production. However, natural gas transportation and processing issues in British Columbia continued to negatively impact prices realized by the industry. As Encal increases its British Columbia natural gas productive capability, investment or participation in non-regulated infrastructure is being undertaken enhancing the ability to manage costs and throughput.

Crude oil distribution is less of an issue in western Canada and, particularly as a result of relatively steady reinvestment by producer companies leading to regular system upgrading. Distribution capability is expected to manage increasing productive capability through the industry for the foreseeable future.

As the Company grows, there is an increasing requirement to anticipate market and transportation needs to ensure future cash flow. Encal is in various stages of securing markets in conjunction with the TransCanada Pipelines 1998 expansion. Proactive commitment to transport a significant volume of British Columbia natural gas production through the Alliance Pipeline project is scheduled to be constructed and on-stream late in 1999. The commitment is in anticipation of significant production increases resulting from the British Columbia capital asset acquisition completed at year end 1996. As Encal's sales volumes grow, the marketing strategy will continue to look further out to ensure production growth is matched with appropriate transportation and sales arrangements.

Management's discussion of 1996 and 1995 financial results follows. The M D & A *should be read in conjunction with the audited financial statements and notes.* *Additional supplementary information begins on page 49.*

MANAGEMENT'S DISCUSSION

Encal Energy Ltd.

AND ANALYSIS

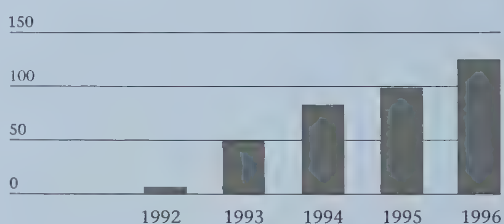
Results for 1996 were influenced by stronger commodity prices and by production volume growth which resulted in funds from operations of $66.2 million ($44.9 million in 1995). The Company undertook a $109.3 million net capital program ($40.4 million in 1995) that resulted in the most active exploration year in the Company's history with the drilling of 83.7 net wells and the replacement of 230 percent of 1996 production. This capital program was financed by funds generated from operations and the Company's debt capacity.

For the purposes of calculating unit costs, natural gas is converted to a barrel equivalent using 10 thousand cubic feet equal to one barrel unless otherwise stated.

Revenues

Petroleum and natural gas revenues increased 26 percent to $124.3 million in 1996 from $98.4 million in 1995. The increase in revenues was the result of price increases of 24 percent for both crude oil and natural gas and a 34 percent increase in natural gas liquids as well as volume increases on all products.

PETROLEUM AND NATURAL GAS SALES *($ millions)*



Crude Oil Pricing

Canadian crude oil prices are referenced to an Edmonton Light Sweet price that is adjusted to West Texas Intermediate (WTI) oil prices referenced at Cushing, Oklahoma. Transportation from the wellhead to market as well as oil quality adjustment are deducted to result in an average Encal field price. The average Encal field price of crude oil increased 24 percent to $26.47 per barrel, before hedging costs, compared to $21.36 in 1995. Net of hedging activities, the resulting field price was $24.08 per barrel; a 12 percent increase over the 1995 price of $21.51 which included a small hedging gain.

CRUDE OIL PRICING

	1996	1995
WTI *(US$/bbl at Cushing, Oklahoma)*	22.01	18.40
Average Exchange Rate	1.3635	1.3725
WTI *(CDN$/bbl at Cushing, Oklahoma)*	30.01	25.25
Less: Transportation Differential Cushing, Oklahoma to Edmonton *(CDN$/bbl)*	0.78	1.21
Edmonton Light Sweet Posting *(CDN$/bbl)*	29.23	24.04
Less: Transportation to Edmonton and Quality Adjustment *(CDN$/bbl)*	2.76	2.68
Encal Average Field Price (before hedging gains (losses)) *(CDN$/bbl)*	26.47	21.36

Natural Gas Pricing

Encal has approximately 50 percent of its natural gas pricing referenced to U.S. based market prices while another 30 percent is sold into Alberta and British Columbia markets. The U.S. price is typically referenced at Henry Hub, Louisiana while Alberta and British Columbia prices are referenced at the Alberta Energy Company's Suffield storage field and the Nova Inventory Transfer (AECO/NIT) delivery point and Sumas, Washington, respectively. Encal's average corporate price for natural gas increased 24 percent to $1.61 per thousand cubic feet in 1996 compared to $1.30 per thousand cubic feet in 1995. The Company's budgeted natural gas price for 1997 is $1.60 per thousand cubic feet, reflecting the industry expectation for stable prices throughout 1997.

During the past year, the need for additional pipeline capacity from Alberta to U.S. markets has been reflected in the difference between natural gas prices in Alberta and those on the New York Mercantile Exchange (NYMEX). The average differential widened to US$1.53 per mmbtu in 1996 from US$0.79 per mmbtu during 1995. This widening differential is a result of Alberta prices not tracking NYMEX price increases. This gap is the result of surplus supply causing increased gas on gas competition among producers and marketers rather than among buyers.

AVERAGE ALBERTA NATURAL GAS PRICES

	1996	1995
NYMEX *(US$/mmbtu at Henry Hub, Louisiana)*	2.55	1.63
Less: Differential *(AECO Hub US$/mmbtu)*	(1.53)	(0.79)
	1.02	0.84
Average Exchange Rate	1.3635	1.3725
Alberta Price @ AECO *(CDN$/mcf)*	1.39	1.15
Less: NOVA transportation *(CDN$/mcf)*	(0.12)	(0.12)
Encal contract/marketing premium *(CDN$/mcf)*	0.43	0.32
Encal average Alberta plantgate price realization *(CDN$/mcf)*	1.70	1.35

AVERAGE BRITISH COLUMBIA NATURAL GAS PRICES

	1996	1995
NYMEX *(US$/mmbtu at Henry Hub, Louisiana)*	**2.55**	1.63
Less: Differential *(Sumas US$/mmbtu)*	**(1.23)**	(0.59)
	1.32	1.04
Average Exchange Rate	**1.3635**	1.3725
British Columbia Price @ Sumas *(CDN$/mcf)*	**1.80**	1.43
Less: Westcoast Energy transportation *(CDN$/mcf)*	**(0.35)**	(0.35)
Encal contract/marketing premium (discount) *(CDN$/mcf)*	**(0.15)**	0.25
Encal average British Columbia plantgate price realization *(CDN$/mcf)*	**1.30**	1.33
Less: Westcoast Energy processing and gathering *(CDN$/mcf)* *	**(0.33)**	(0.33)
Encal average British Columbia wellhead price realization *(CDN$/mcf)*	**0.97**	1.00

** British Columbia has an infrastructure built by Westcoast Energy Inc. that enables gas producers in that province to avoid facility construction in exchange for a regulated gathering, processing and transmission fees.*

AVERAGE PRODUCT PRICES

	Fourth Quarter 1996	1996	1995
Crude Oil *($/bbl)*	29.41	**26.47**	21.36
Natural Gas *($/mcf)*	1.86	**1.61**	1.30
Natural Gas Liquids *($/bbl)*	25.05	**20.72**	15.46
Oil Hedging Gain (Loss) *($/bbl)*	(3.66)	**(2.39)**	0.15

REVENUE

($ thousands)	% change	1996	1995
Crude Oil	29	**52,623**	40,825
Natural Gas	29	**62,282**	48,431
Natural Gas Liquids	64	**13,655**	8,306
Hedging Gain (Loss)	—	**(4,816)**	292
Other Revenue	9	**550**	505
Total	26	**124,294**	98,359

REVENUE IMPACT

($ thousands)	Crude Oil	Natural Gas	Natural Gas Liquids	Other	Total
1995 Revenue	41,117	48,431	8,306	505	98,359
Increase due to Price	9,767	11,564	2,831	45	24,207
Increase due to Volume	2,037	2,234	2,518	–	6,789
Increase due to Acquisitions	1,261	279	–	–	1,540
Decrease due to Dispositions	(1,559)	(226)	–	–	(1,785)
Hedging Loss	(4,759)	(57)	–	–	(4,816)
1996 Revenue	**47,864**	**62,225**	**13,655**	**550**	**124,294**

Production

The Company reached a milestone in December 1996, attaining production levels of 20,000 BOE per day.

Crude oil sales volumes increased four percent to 5,432 barrels per day in 1996 compared to 5,236 barrels per day in 1995. Increases in oil production are attributable to exploration and development at Consort, Clearhills, Swalwell, Oak North and Shorncliffe. Other influences on production include natural decline rates at producing properties plus the sale of minor properties.

Natural gas sales volumes increased three percent in 1996 to average 105.7 million cubic feet per day compared to 102.2 million cubic feet per day in 1995. Natural gas sales volumes increased to average over 120.3 million cubic feet per day in the fourth quarter of 1996. The increase is a result of the completion of development projects at Cutbank/Wapiti, Oak, Clearhills and Modeste offset somewhat by natural decline and sale of minor properties.

NGL sales volumes increased 22 percent to 1,800 barrels per day in 1996 compared to 1,472 barrels per day in 1995. The increase in volumes is attributable to new production associated with natural gas discoveries. The average price increased 34 percent to $20.72 per barrel in 1996 from $15.46 in 1995.

Other revenue consists mainly of the Company's 6.3 percent working interest in the Empress Straddle Plant which is a liquids extraction facility in Empress, Alberta.

PRODUCTION

	Fourth Quarter 1996	1996	1995
Crude Oil *(bbls/d)*	5,447	**5,432**	5,236
Natural Gas *(mcf/d)*	120,306	**105,713**	102,201
Natural Gas Liquids *(bbls/d)*	2,068	**1,800**	1,472
Production *(BOE/d)*	19,546	**17,803**	16,928

Expenses

Royalties include payments made to the Crown, freehold owners and third parties. Average royalty rates for crude oil and NGL's were 18.3 percent in 1996 compared to 17.8 percent in 1995. Crude oil and natural gas liquids royalties per unit of production increased in 1996 due to higher prices. Average royalty rates for natural gas were 13.1 percent in 1996 compared to 16.0 percent in 1995. Natural gas royalty rates decreased during the year due to higher gas cost allowance claims and the over estimation of Crown royalty expense in 1995.

Encal's Alberta Crown royalty payments will exceed the maximum amounts available under the Alberta Royalty Tax Credit program for 1996 and future years.

ROYALTIES

($ thousands)	1996	1995
Royalties		
Crown	**14,904**	13,031
Freehold and Other	**5,424**	3,455
Alberta Royalty Tax Credit (ARTC)	**(1,465)**	(1,515)
Net Royalties	**18,863**	14,971
$/BOE, net of ARTC	**2.89**	2.42
Average Royalty Rate, net of ARTC *(%)**	**14.6**	15.3
Royalties – Crude Oil and NGL	**12,154**	8,750
Average Crude Oil and NGL Royalty Rate, before ARTC *(%)**	**18.3**	17.8
Royalties – Natural Gas	**8,174**	7,736
Average Natural Gas Royalty Rate, before ARTC *(%)**	**13.1**	16.0

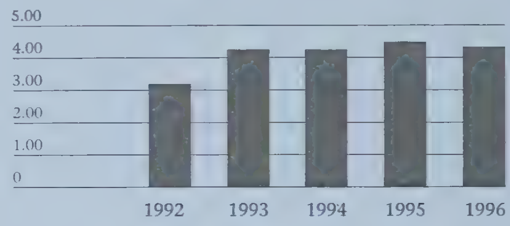
**Before hedging gains (losses)*

PRODUCTION EXPENSES

($ thousands)	1996	1995
Production Expenses	**27,937**	27,561
$/BOE	**4.29**	4.46
Production Expenses – Crude Oil and Natural Gas Liquids	**11,882**	11,924
$/BOE – Crude Oil and NGL	**4.49**	4.87
Production Expenses – Natural Gas	**16,055**	15,637
$/BOE – Natural Gas	**4.15**	4.20

Production expenses per barrel of oil equivalent, net of processing income, decreased four percent to $4.29 per barrel of oil equivalent in 1996 compared to $4.46 per barrel of oil equivalent in 1995. The decrease is a result of improved efficiencies and the addition of lower operating cost production.

OPERATING COSTS *($/BOE)*



OPERATING NETBACKS

	Crude Oil and Natural Gas Liquids *($/bbl)*		Natural Gas *($/mcf)*		*($/BOE)*	
	1996	1995	1996	1995	1996	1995
Price	**25.04**	20.07	**1.61**	1.30	**19.81**	15.87
Hedging	**(2.39)**	0.15	–	–	**(0.74)**	0.05
Royalties	**(4.59)**	(3.57)	**(0.21)**	(0.19)	**(2.89)**	(2.42)
Production Expenses	**(4.49)**	(4.87)	**(0.41)**	(0.42)	**(4.29)**	(4.46)
Operating Netbacks	**13.57**	11.78	**0.99**	0.69	**11.89**	9.04

GENERAL AND ADMINISTRATIVE EXPENSES

($ thousands)	1996	1995
General and Administrative	**10,567**	9,654
Recoveries	**(2,357)**	(2,286)
Net General and Administrative	**8,210**	7,368
Net General and Administrative – *($/BOE)*	**1.26**	1.19
Recoveries of General and Administrative *(%)*	**22**	24
Number of Employees and Full Time Consultants (at year end)		
Head Office	**102**	97
Field	**19**	21
Total	**121**	118

The increase in general and administrative expenses in 1996 from 1995 is largely the result of an increase in salaries associated with the increase in capital activity. Overhead recoveries relate to well and facility operations and capital projects. Overhead recoveries are dependent on operated capital expenditure levels. General and administrative expenses in 1997 are anticipated to be consistent with 1996.

INTEREST ON LONG TERM DEBT

($ thousands)	1996	1995
Interest on Long Term Debt	**2,322**	2,808
$/BOE	**0.35**	0.46

Long term debt increased $35.9 million in 1996 to $64.0 million; $22.9 million of the increase occurred in the last quarter. Interest expense decreased 17 percent during 1996 to $2.3 million from $2.8 million in 1995. The decrease is a result of lower interest rates in 1996 compared to 1995.

DEPLETION AND DEPRECIATION

($ thousands)		1996	1995
Depletion and Depreciation		**43,951**	42,396
Site Restoration and Reclamation		**2,176**	1,926
		46,127	44,322
$/BOE	– (Gas to Oil – 10:1)	**7.08**	7.17
	– (Gas to Oil – 6:1)	**5.07**	5.11
Depletion Rate *(%)*	– (Gas to Oil – 10:1)	**10.55**	11.44
	– (Gas to Oil – 6:1)	**10.36**	11.33

The 1996 depletion and depreciation provision increased four percent to $44.0 million compared to $42.4 million in 1995 due to increased production.

For purposes of calculating oil equivalence in the depletion calculation, natural gas is converted to a barrel equivalent using six thousand cubic feet equal to one barrel. This conversion factor (6:1) approximates the relative energy value and is commonly used in depletion calculations. The more commonly used financial conversion remains 10:1, reflecting relative market values.

The net carrying costs of the Corporation's petroleum and natural gas properties and equipment are subject to a ceiling test as described in the accounting policies. The ceiling test was calculated using year end prices which resulted in an excess over the undepleted cost base and therefore no writedown was required

Site Restoration and Reclamation

The Company provided $2.2 million for site restoration and reclamation in 1996 compared to $1.9 million in 1995. This charge amounts to $0.33 per boe in 1996 and $0.31 per boe in 1995. In 1996, $0.16 per boe was incurred and $0.17 was accrued as a liability. Actual site restoration costs incurred during 1996 amounted to $1.0 million compared to $363,000 in 1995.

INCOME TAXES

($ thousands)	1996	1995
Deferred Income Taxes	**8,550**	1,552
Capital Taxes	**767**	741
Total	**9,317**	2,293

Encal has $270.0 million in resource tax pools available to reduce future taxable income including $27.0 million of successored pools. Income from the successored properties is expected to be sufficient to utilize these pools. As at December 31, 1996 the Company has $13.7 million in non-tax based assets as a result of purchase price discrepancies on corporate acquisitions.

Funds from Operations and Earnings

NETBACK ANALYSIS

($/BOE)	1996	1995
Production Revenue	**19.81**	15.87
Hedging Gain (Loss)	**(0.74)**	0.05
Royalties	**(3.12)**	(2.67)
ARTC	**0.23**	0.25
Production Expenses	**(4.29)**	(4.46)
General and Administrative Expenses	**(1.26)**	(1.19)
Interest on Long Term Debt	**(0.35)**	(0.46)
Capital Taxes	**(0.12)**	(0.12)
Funds from Operations	**10.16**	7.27
Depletion and Depreciation	**(7.08)**	(7.17)
Deferred Income Taxes	**(1.31)**	(0.25)
Net Earnings (Loss)	**1.77**	(0.15)

Share Information

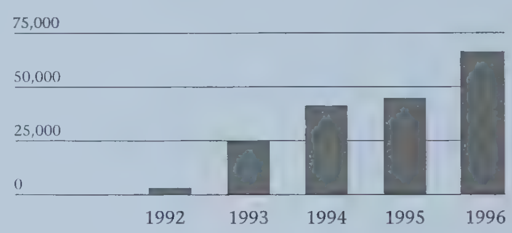
Common Shares issued during 1996 are a result of the exercise of stock options. Employee stock options were issued to new employees during the year and a new distribution of 2,150,000 options were issued to all employees on December 6, 1996.

Included in the outstanding option amount are 1,400,000 incentive options which were granted to the Company's executive officers on December 6, 1996 at an exercise price of $3.65. These options are exercisable at a rate of 33.33 percent or 66.67 percent based on the Company's common shares reaching a market price of $5.74 or $6.38, respectively, within five years of the date of grant.

PER SHARE INFORMATION

($ thousands except per share amounts)	1996	1995
Net Earnings (Loss)	**11,518**	(964)
Earnings (Loss) per Share		
– Basic	**0.11**	(0.01)
– Fully Diluted	**0.11**	(0.01)
Funds from Operations	**66,195**	44,910
Funds from Operations per Share		
– Basic	**0.64**	0.43
– Fully Diluted	**0.62**	0.42

FUNDS FROM OPERATIONS *($ thousands)*



SHARES OUTSTANDING

(thousands)	1996	1995
Weighted Average Outstanding Shares		
– Basic	**103,851**	103,706
– Fully Diluted	**108,111**	106,651
Outstanding Shares December 31		
– Basic	**103,992**	103,835
– Fully Diluted	**109,922**	108,059

Capital Expenditures

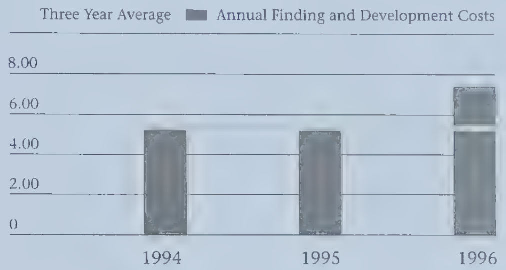
NET CAPITAL EXPENDITURES

($ thousands)	1996	1995
Land and Lease	**20,581**	7,682
Seismic	**7,339**	3,038
Drilling and Completions	**41,129**	28,290
Property Acquisitions	**24,645**	7,528
Property Dispositions	**(12,343)**	(20,636)
Total Finding Expenditures	**81,351**	25,902
Facilities	**26,071**	12,748
Miscible Fluid and Other	**1,858**	1,761
Total Finding and Development Expenditures	**109,280**	40,411

Capital expenditures in 1996 were concentrated in three areas: British Columbia, Peace River and West Central Alberta. During 1996 the Company sold $12.3 million in properties including property swaps at Ansell and Grande Prairie Unit and dispositions at Kelsey and Grand Forks. The non-strategic asset disposition program and core area acquisition program is an ongoing process.

FINDING AND DEVELOPMENT COSTS

(proven plus probable) ($/BOE)



The Company has an approved capital budget net of disposals of $135 million for 1997. The Board of Directors reviews the capital budget every quarter and will amend capital spending if required. With a surplus inventory of exploration and development prospects, selectivity will maximize returns.

Capital costs associated with miscible fluids relating to the Swan Hills Unit #1 were $1.1 million in 1996 ($1.0 million in 1995). Other capital costs covered office improvements, equipment, computer hardware and software, amounting to $719,000 in 1996 ($749,000 in 1995).

Cumulative Cost of Reserve Additions

In calculating finding and development costs, there are often a number of inconsistencies between periods such as the timing of expenditures, particularly related to land purchases and major facility construction, as well as the recognition and revision of reserves. Three year cumulative average calculations are a more meaningful reflection of a company's ability to find and produce reserves effectively.

	Cumulative 1994 – 1996	1996	1995	1994
Net Capital Expenditures *($ thousands)*	347,996	**109,280**	40,411	198,305
Proven				
Net Reserve Additions *(mBOE)*	47,039	**13,927**	6,766	26,346
Finding Costs *($/BOE)*	5.21	**5.84**	3.83	5.24
Finding and Development Costs *($/BOE)*	7.40	**7.85**	5.97	7.53
Proven plus Probable				
Net Reserve Additions *(mBOE)*	59,738	**14,941**	7,618	37,179
Finding Costs *($/BOE)*	4.11	**5.44**	3.40	3.98
Finding and Development Costs *($/BOE)*	5.83	**7.31**	5.30	5.33

The 1996 reserve replacement costs exceeded prior years due to the focus during the year on increased production levels as well as the strategic objective of positioning Encal for exploration success for 1997 and onwards. The facility component of 1996 spending increased 205 percent while capital associated with land purchase and seismic increased by 260 percent over 1995 levels. With a strong inventory of exploration opportunities in place, 1997 drilling capital is expected to represent a much larger percentage of total expenditures.

Financial Resources

The Company had lines of credit totalling $110.0 million of which $64.0 million was outstanding at December 31, 1996. At December 31, 1996, the working capital deficiency was $15.0 million compared to $7.3 million at December 31, 1995. The increase in the working capital deficiency is a result of increased capital expenditures in the fourth quarter. The Company normally operates in a working capital deficiency.

Combined debt and working capital deficiency amount to $79.0 million. This total debt level represents approximately 1.2 times 1996 funds from operations of $66.2 million.

On January 31, 1997, the Company's lines of credit were increased from $110.0 million to $160.0 million. This increase positioned the Company to finance the acquisition of the British Columbia assets of a competitor and to finance its 1997 capital program.

The Company has no material commitments outside of the normal course of business.

LONG TERM DEBT TO FUNDS FLOW

($ thousands)	1996	1995
Long Term Debt	**64,046**	28,126
Funds from Operations	**66,195**	44,910
Years Funds Flow to Repay Long Term Debt	**0.97**	0.63

NET ASSET VALUE

($ thousands)	1996	1995
Reserve Value *(15% discount before tax)*	**456,000**	363,000
Undeveloped Acreage	**50,851**	39,000
Seismic and Other Assets	**25,000**	20,000
Working Capital Deficiency	**(14,961)**	(7,269)
Long Term Debt	**(64,046)**	(28,126)
Total	**452,844**	386,605
Outstanding Common Shares at December 31		
– Basic	**103,992,000**	103,835,000
– Fully Diluted	**109,922,000**	108,059,000
Net Asset Value per Common Share		
– Basic	**4.35**	3.72
– Fully Diluted	**4.12**	3.58

The reserve value of the Company increased from 1995 levels due to reserve additions from successful drilling and acquisitions during 1996. This is further described on page 20 of this report.

CAPITALIZATION

($ thousands)	1996	(%)	1995	(%)
Working Capital Deficiency	**14,961**	3	7,269	2
Long Term Debt	**64,046**	11	28,126	8
Deferred Income Taxes	**36,137**	6	27,587	7
Common Shares at December 31				
– Closing Trading Price on TSE $4.29 in 1996 and $3.05 in 1995	**446,126**	80	316,697	83
Total	**561,270**	100	379,679	100

SENSITIVITIES

($ thousands)	Funds from Operations	Earnings
Impact on 1996:		
Change in West Texas Intermediate oil price by US$1.00 per barrel	2,523	1,395
Change in average field price of natural gas by CDN$0.10 per mcf	3,361	1,858
Change in value of CDN dollar compared to US dollar by CDN $0.01	567	313
Change of 1% in prime interest rate	362	200

(above assumes a US dollar exchange rate of $1.3635)

Risk Assessment

There are a number of risks facing participants in the Canadian oil and gas industry. Some of the risks are common to all businesses while others are specific to the sector. The following reviews the general and specific risks and includes Encal's approach to managing these risks.

Commodity Risks

FINDING

Oil and gas exploration requires the generation of exploration concepts and manpower and capital to test these concepts. The eventual testing of a concept will not necessarily result in the discovery and production of reserves on an economic basis. Encal attempts to minimize finding risk by ensuring that:

- The majority of prospects have multi-zone potential.
- Activity is focused in core areas.
- Number of wells drilled is large enough to ensure the continuity of historic success rate.
- Working interests are targeted at over 60 percent in new prospects.
- State-of-the-art geophysical techniques are utilized.

INVESTMENT RISK PROFILE

The capital budgeting process is based on risk analysis to ensure capital expenditures balance the objectives of immediate cash flow growth (development activity) and future cash flow from the discovery of reserves (exploration). As a result of this process, evaluation of play types and development of a potential drilling list for 1997, we expect to dedicate 50 percent of the exploration capital budget to plays that will add reserves in 1997 and potentially lead to development activities in 1998 and beyond. Fifty percent will be dedicated to play types that will add to the current year's cash flow.

PRODUCTION

Beyond exploration risk, there is the potential that the Company's oil and natural gas reserves may not be economically produced at prevailing prices. Encal minimizes this risk where it can by generating exploration prospects internally and attempting to operate the associated project. Operational control

allows the Company to control costs, timing, method and sales of production. Production risk is also minimized by concentrating exploration efforts in areas where facilities and infrastructure are Encal-owned, or the Company can control the future development of new facilities and infrastructure.

PRICE

Crude oil prices are dictated by international supply and demand forces and remain unpredictable. Natural gas prices are influenced by continental supply and demand as well as by transportation access. The Company mitigates price risk in a number of ways:

- Encal's historic oil production is of a high quality and hence not subject to adverse quality differentials.
- Encal's exploration efforts avoid heavy oil and plan on adding high quality oil reserves.
- Encal concentrates exploration efforts in core areas where expertise levels are highest and more efficient finding and development costs have proven achievable.
- Encal maintains a balanced exploration strategy between crude oil and natural gas, with 60 percent of prospect generation directed towards natural gas and 40 percent towards crude oil. This helps to mitigate the impact of lower product prices for one commodity. Encal's production mix for the year ended December 31, 1996 was approximately 41 percent crude oil and natural gas liquids and 59 percent natural gas, while its December 31, 1996 reserves were approximately 36 percent crude oil and natural gas liquids and 64 percent natural gas.
- Encal uses financial instruments where appropriate to manage commodity pricing in order to reduce volatility.

FINANCIAL AND LIQUIDITY RISKS

Encal relies on various sources of funding to support its growing capital expenditures program:

- Internally generated cash flow provides the minimum level of funding on which the Company's annual capital expenditures program is based.
- Debt may be utilized to expand capital programs when it is deemed appropriate. The Company maintains a conservative debt policy.
- New equity, if available and if on favourable terms, will be utilized to expand exploration programs.

Cash flow is influenced by factors which the Company cannot control, such as commodity prices, the US/Canadian dollar exchange rate, interest rates and changes to existing government regulations and tax policies. Should circumstances affect cash flow in a detrimental way, Encal would respond by increasing debt to within the Company's self-imposed debt guideline or reducing capital expenditures. The Company uses farm-outs to minimize risk on plays it considers high risk.

ENVIRONMENTAL AND SAFETY RISKS

There are potential risks to the environment inherent in the business activities of the Company. The Board of Directors has reviewed and approved policies and procedures covering environmental risks, emergency response and employee safety. These policies and procedures are designed to protect and maintain the environment with respect to all corporate operations on behalf of shareholders, employees and the public at large. The Company mitigates environmental and safety risks by maintaining modern facilities, complying with all provincial and federal environmental and safety regulations and maintaining adequate insurance.

During 1996, the Company initiated a three part environmental audit that will see all operated properties audited by the end of 1998. To date, the first one-third of the operated properties have been audited and no significant issues are outstanding. Work is in progress to rectify all identified weaknesses. The Company has estimated future site restoration and abandonment costs will total $21.0 million and has recognized $2.2 million through increased depletion in 1996. The Company reviews its site restoration and abandonment obligations annually and adjusts its provision based on current costs.

INFLATION RISK

Inflation risks subject the Company to potential erosion of product netbacks. Increasing domestic prices for oil and gas production equipment and services can inflate the costs of operating the production.

SUPPLY OF SERVICE AND PRODUCTION EQUIPMENT

The supply of service and production equipment at competitive prices is critical to the ability to add reserves at a competitive cost and produce these reserves in an economic and timely fashion. In periods of increased activity these services and supplies can become difficult to obtain. The Company attempts to mitigate this risk by developing strong long term relationships with suppliers and contractors.

MARKETING RISKS

Markets for Company crude oil, natural gas liquids and natural gas are uncertain. Demand for crude oil and natural gas production produced by the Company does exist within Canada and the United States, however, prices for crude oil is impacted by worldwide supply and demand while natural gas liquids and natural gas is limited by North American supply and demand fundamentals.

The Canadian crude oil marketing infrastructure generally operates efficiently with minimal transportation disruptions affecting the Company. The Company has had little difficulty in marketing all of the oil it can produce given that it accepts the price set by world market supply and demand forces. Company average crude oil quality is high with approximately 53 percent medium crude oil (25 degree API to 37 degree API), 44 percent light crude oil (38 degree API or better) and three percent heavy crude oil (less than 25 degree API). Higher quality crudes have not been restricted due to pipeline capacity like some of the heavier crudes.

Marketing of Company natural gas production represents a higher degree of risk. Longer lead times are required to arrange transportation and sales contracts. The Company manages this risk by entering into a portfolio of long term netback contracts and mid-term deliverability based contracts. Approximately 10 percent of Encal's gas production is sold on a short term basis to backstop deliveries to longer term contracts and to capitalize on short term price increases. Firm sale commitments match production additions from exploration and development success.

Risk Management

The objectives of Encal's risk management program are to secure the capital program and cover debt payments by ensuring that budgeted cash flow levels are attained through the minimization of exposure to commodity price, foreign exchange and interest rate volatility. The objectives are achieved through the use of financial instruments or by negotiating fixed price contracts on the delivery of physical volumes. The program is subject to certain targets and limitations as approved by the Board of Directors from time to time. Effective controls and procedures are in place to ensure that the mandate is followed.

Commodity Prices

In 1996, Encal used financial instruments to hedge approximately 38 percent of crude oil sales at an average WTI price of CDN$24.12 per barrel. This resulted in a crude oil hedging charge of $4,759,000.

The Company has authority from the Board of Directors to use financial instruments to lock in the price on 40 percent of its 1997 crude oil and natural gas production at prices equal to or above the current year's budget. As of December 31, 1996, the Company had used financial instruments to lock in 17 percent of 1997 crude oil production at an average WTI price ranging from CDN$25.00 to CDN$29.95 per barrel. The Company recognized the potential for improvement in natural gas prices in 1997 and left the majority of prices open to market related indexes.

Foreign Exchange

Management has Board of Directors approval to hedge up to 50 percent of the 1997 and 1998 revenue exposed to US/Canadian dollar currency risk. The Company has entered into currency swaps to affix the Canadian/US dollar exchange rate on CDN$38.8 million (US$29.0 million) in 1997 and CDN$32.0 million (US$24.0 million) in 1998 US-dollar-based revenue.

Interest Rate

As at December 31, 1996, the Company has locked in interest rates on CDN$20.0 million of its bank debt at 6.27 percent covering the period January 1997 to January 1998. During 1997, the Company anticipates locking in interest rates on a higher percentage of its outstanding debt and to term out some of its forecasted debt.

Outlook and Prospects for Future Growth

Encal remains confident of its ability for success and future growth. The current commodity price environment is sufficient to justify planned exploration and development expenditures, provided efficient finding and development costs and operating costs are maintained. Growth will be generated by exploration activities and strategic acquisitions which will remain concentrated in defined core areas.

Growth results from the efficient reinvestment of cash flow. Annual cash flow is not only determined by product prices but by production volumes, which are in turn influenced by annual capital expenditure levels. Management has prepared the table below to assist the reader in understanding the interrelationship of commodity prices and cash flow.

1997 CASH FLOW COMMODITY SENSITIVITIES

($ millions)	WTI *(US$/bbl)*					
Average Gas Price *($/mcf)*	18.00	19.00	20.00	21.00	22.00	23.00
1.50	67	70	73	76	79	82
1.60	71	74	77	80	83	86
1.70	75	78	81	84	87	90
1.80	79	82	85	88	91	94
1.90	83	86	89	92	95	98

The 1997 capital budget has been established utilizing commodity price forecasts of US$21.00 per barrel of crude oil and an average of $1.60 per thousand cubic feet of natural gas. The Company's programs are flexible enough that should commodity prices continue to improve, levels of exploration activity will increase to provide production volume growth beyond what is anticipated in the budget.

1997 CAPITAL BUDGET

($ millions)	
Exploration Capital	80
Development Capital	30
Property Acquisitions	65
Property Dispositions	(40)
Net Capital	135

MANAGEMENT'S REPORT

Encal Energy Ltd.

The accompanying financial statements of Encal Energy Ltd. and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the financial statements.

Encal Energy Ltd. maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board, and a majority of its members are outside directors. The Committee meets periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each part is properly discharging its responsibilities and to review the annual report, the financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

The financial statements have been audited by Ernst & Young, the external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. Ernst & Young has full and free access to the Audit Committee.

Steven A. Allaire
Vice President, Finance and CFO
Calgary, Alberta
March 10, 1997

David D. Johnson
President and CEO

AUDITORS' REPORT

Encal Energy Ltd.

To the Shareholders of Encal Energy Ltd.

We have audited the balance sheets of Encal Energy Ltd. as at December 31, 1996 and 1995 and the statements of earnings (loss) and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the management of the Company. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Ernst & Young

Chartered Accountants
Calgary, Canada
March 10, 1997

BALANCE SHEETS

Encal Energy Ltd.

As at December 31 *($ thousands)*	1996	1995
ASSETS		
Current		
Accounts Receivable	18,892	22,790
Deposit *(Note 8)*	4,540	–
Inventory	2,582	4,514
	26,014	27,304
Petroleum Property and Equipment *(Note 3)*	384,127	318,798
	410,141	346,102
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts Payable	40,975	34,573
Long Term Debt *(Note 4)*	64,046	28,126
Site Restoration and Reclamation	7,021	5,888
Deferred Income Taxes	36,137	27,587
	107,204	61,601
Shareholders' Equity		
Share Capital *(Note 5)*	242,048	241,532
Retained Earnings	19,914	8,396
	261,962	249,928
	410,141	346,102

See accompanying notes

On behalf of the Board:

Director *Director*

STATEMENTS OF EARNINGS (LOSS) AND RETAINED EARNINGS

Encal Energy Ltd.

For the years ended December 31 *($ thousands except per share amounts)*	1996	1995
Revenues		
Petroleum and Natural Gas Sales	124,294	98,359
Royalties	18,863	14,971
	105,431	83,388
Expenses		
Production	27,937	27,561
General and Administrative	8,210	7,368
Interest on Long Term Debt	2,322	2,808
Depletion and Depreciation	46,127	44,322
	84,596	82,059
Earnings Before Income Taxes	20,835	1,329
Income Taxes *(Note 7)*		
Deferred	8,550	1,552
Capital Taxes	767	741
	9,317	2,293
Net Earnings (Loss) for the Year	11,518	(964)
Retained Earnings, Beginning of Year	8,396	9,360
Retained Earnings, End of Year	19,914	8,396
Earnings (Loss) per Share		
Basic	0.11	(0.01)
Fully Diluted	0.11	(0.01)

See accompanying notes

STATEMENTS OF CHANGES IN FINANCIAL POSITION

Encal Energy Ltd.

For the years ended December 31 *($ thousands except per share amounts)*	1996	1995
Operating Activities		
Net Earnings (Loss) for the Year	11,518	(964)
Depletion and Depreciation	46,127	44,322
Deferred Income Taxes	8,550	1,552
Funds from Operations	66,195	44,910
Change in Non-Cash Working Capital *(Note 2)*	(616)	(7,183)
	65,579	37,727
Financing Activities		
Increase in Long Term Debt	35,920	2,448
Increase in Common Shares *(Note 5)*	516	444
	36,436	2,892
Investing Activities		
Additions to Petroleum Property and Equipment	(121,623)	(61,047)
Sales of Petroleum Property and Equipment	12,343	20,636
Site Restoration and Reclamation	(1,043)	(363)
Change in Non-Cash Working Capital *(Note 2)*	8,308	155
	(102,015)	(40,619)
Change in Cash	–	–
Funds from Operations per Share		
Basic	0.64	0.43
Fully Diluted	0.62	0.42

See accompanying notes

NOTES TO FINANCIAL
December 31, 1996 and 1995
STATEMENTS

1. Significant Accounting Policies

Nature of Business and Basis of Presentation

Encal Energy Ltd. (the Company) operates in the oil and gas industry in Alberta, British Columbia and Saskatchewan. The financial statements include the accounts of the Company and are stated in Canadian dollars and have been prepared in accordance with accounting principles generally accepted in Canada. The significant accounting policies are summarized below.

Petroleum Property and Equipment

The Company follows the full cost method of accounting for petroleum and natural gas properties. All costs relating to the acquisition of, exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical costs, lease rentals on undeveloped properties, costs of drilling both productive and non-productive wells, lease and well equipment, and overhead expenses related to acquisition and exploration activities. General and administrative expenses are not capitalized other than to the extent of the working interest in Company-operated capital expenditure programs to which operator's fees have been charged pursuant to standard industry operating agreements.

Proceeds from disposal of properties are normally applied as a reduction of the cost of remaining assets without recognition of a gain or loss unless the disposal would result in a change of 20 percent or more in the depletion rate.

The Company applies a ceiling test to capitalized costs to ensure that such costs do not exceed estimated future net revenues from production of proven reserves at year end market prices less future production, general and administrative, financing, site restoration and reclamation, net of salvage values, and income tax costs plus the lower of cost or estimated market value of unproved properties.

Depletion of petroleum and natural gas properties and depreciation of lease and well equipment are calculated using the unit-of-production method based on estimated proven oil and gas reserves. Reserves are converted to common units on the approximate equivalent energy basis.

Site Restoration and Reclamation

The Company provides for the total future liability for site restoration costs on wells and facilities using the unit-of-production method over the estimated life of the oil and gas reserves. The liability is based on estimates of the anticipated method and extent of site restoration, using current costs and in accordance with existing legislation and industry practice. The annual charge of \$2,176,000 (1995 – \$1,926,000) is grouped with depletion and depreciation expense, with the accumulated provision being shown as a deferred liability. Actual site restoration costs are deducted from the provision in the year incurred.

Measurement Uncertainty

The amounts recorded for depletion and depreciation of property, plant and equipment and for site restoration and reclamation are based on estimates of reserves and future costs. By their nature, these estimates and those related to the future cash flows used to assess impairment, are subject to measurement uncertainty and the impact on the financial statements of future periods could be material.

Joint Venture Operations

Substantially all of the exploration and production activities of the Company are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

Per Share Information

Per share information is calculated on the basis of the weighted average number of common shares outstanding during the fiscal year. Fully diluted per share information is calculated on the basis of the weighted average number of common shares that would have been outstanding during the year had all the stock options been exercised at the date of their issuance.

Derivative Financial Instruments

The Company utilizes derivative financial instruments contracts to reduce its exposures to changes in petroleum and natural gas prices, the Canada/US dollar exchange rate and interest rates. Where petroleum and natural gas price swaps based in US dollars are entered into, the Company may use forward foreign exchange contracts to hedge against unfavourable Canada/US dollar exchange rates. Gains and losses incurred on these contracts are recognized in income concurrently with the hedged transaction. In the case of interest rate swaps, the differential to be paid or received is accrued as interest rates change and is recognized over the term of the agreements. The fair values of these contracts are not reflected in the financial statements.

2. Changes in Non-Cash Working Capital

($ thousands)	1996	1995
Cash Provided by (Used for):		
Accounts Receivable	**3,898**	(512)
Deposit	**(4,540)**	–
Inventory	**1,932**	668
Accounts Payable	**6,402**	(7,184)
Changes in Non-Cash Working Capital	**7,692**	(7,028)
These changes relate to the following activities:		
Operating Activities	**(616)**	(7,183)
Investing Activities	**8,308**	155
	7,692	(7,028)

3. Petroleum Property and Equipment

($ thousands)	1996	1995
Petroleum Property and Equipment	**518,361**	409,081
Accumulated Depletion and Depreciation	**(134,234)**	(90,283)
	384,127	318,798

Included in petroleum property and equipment is the amount of $50,851,000 (1995 – $39,202,000) representing the cost of undeveloped lands for which no depletion has been provided.

4. Long Term Debt

The Company has an unsecured $80,000,000 term credit facility and a $30,000,000 operating credit facility from a Canadian chartered bank of which $64,046,000 was outstanding under the term credit facility at December 31, 1996 ($28,126,000 in 1995). The interest rate on outstanding debt varies but approximates the lenders' prime rate. The Company has the option (subject to bank approval) of converting it's term credit facility to a reducing credit facility in whole or in part. Payments under the reducing facility would be required on a semi-annual basis in order that the

facility be repaid by the maturity date of December 31, 2002. The facility provides for various interest rate and Bankers Acceptance fee options, which are based on market rates in effect from time-to-time and the Company's debt to cash flow ratio. The Company has an interest swap outstanding at December 31, 1996 (Note 6).

5. Share Capital

Authorized

Unlimited number of Class A preferred shares issuable in series

Unlimited number of Class B preferred shares issuable in series

Unlimited number of common shares at no par value

Issued and Outstanding

($ thousands except share amounts)	1996 Number	1996 Value
Common Shares		
Balance, Beginning of Year	**103,834,759**	**241,532**
Issued Pursuant to the Exercise of Stock Options and Stock Savings Plan	**157,564**	**516**
Balance, End of Year	**103,992,323**	**242,048**

($ thousands except share amounts)	1995 Number	1995 Value
Common Shares		
Balance, Beginning of Year	103,458,120	241,088
Issued Pursuant to the Exercise of Stock Options and Stock Savings Plan	376,639	444
Balance, End of Year	103,834,759	241,532

The number of weighted average shares outstanding (basic) is 103,851,000 (1995 – 103,706,000).

Stock Options

Under the terms of the stock option plan, options to purchase common shares may be granted to management, employees and directors at such exercise price and for such exercise period as determined by the Board of Directors. All outstanding options were granted for a five year term. At December 31, 1996, options to purchase 5,930,068 common shares were outstanding at prices ranging from $2.38 to $4.60 per share and expiring from 1997 to 2001.

Included in the outstanding option amount are 1,400,000 incentive options which were granted to the Company's executive officers on December 6, 1996 at an exercise price of $3.65. These options are exercisable at a rate of 33.33 percent or 66.67 percent based on the Company's common shares reaching a market price of $5.74 or $6.38, respectively, within five years of the date of grant.

Activity in the plan through December 31, 1996 was as follows:

Options Outstanding

	Number of Shares	Price Per Share	Total Price
Balance at December 31, 1994	3,093,600	0.32 – 5.88	$ 10,539,150
Options Granted	1,876,700	2.66 – 3.30	5,187,990
Options Cancelled	(462,668)	2.38 – 5.88	(2,182,620)
Options Exercised	(283,332)	0.32 – 2.38	(159,330)
Balance at December 31, 1995	4,224,300	2.38 – 4.60	13,385,190
Options Granted	2,311,250	2.80 – 4.00	8,342,320
Options Cancelled	(447,918)	2.66 – 3.55	(1,414,446)
Options Exercised	(157,564)	2.38 – 3.55	(515,655)
Balance at December 31, 1996	**5,930,068**	**2.38 – 4.60**	**$ 19,797,409**

As at December 31, 1996, the Company has reserved 4,449,848 common shares for future issuance under the plan.

6. Financial Instruments

The Company's financial instruments recognized in the balance sheet consist of accounts receivable, accounts payable and long term debt. The fair value of these financial instruments approximates their carrying amounts. The Company's petroleum and natural gas sales include a charge of $4,816,000 (1995 – $292,000 gain) and interest expense includes a charge of $324,000 (1995 – nil), as a result of hedging activities.

The Company is a party to certain off-balance sheet derivative financial instruments, including crude oil, natural gas, foreign exchange and interest rate swap contracts. The Company enters into these contracts for hedging purposes only, in order to protect its future Canadian dollar earnings and funds from operations from the volatility of crude oil and natural gas commodity prices, US/Canadian dollar exchange rates and interest rates. The swap contracts reduce fluctuations in crude oil and natural gas revenue and interest expense, respectively, by locking in fixed Canadian dollar prices on a portion of crude oil and natural gas sales and locking in fixed interest rates on a portion of floating rate debt.

The Company has outstanding swap agreements at December 31, 1996 as follows:

Commodity Price Swaps

The Company has crude oil swaps to receive fixed prices ranging from CDN$25.00 to CDN$26.13 per barrel covering the period January to December 1997 (CDN$22.97 to CDN$23.75 per barrel for 1996) for 46,667 barrels per month in the first quarter of 1997 and 20,000 barrels per month for the remainder of the year (40,000 barrels in 1996). The majority of these swap transactions effectively lock in WTI (at Cushing, Oklahoma) oil prices and the Canadian dollar exchange rate simultaneously. In addition, the Company entered into two costless collar contracts for 20,000 barrels per month covering the period January to December 1997 with a minimum floor of CDN$26.25 and a maximum ceiling of CDN$29.95 per barrel.

Exchange Rate Swaps

In conjunction with commodity price risk management the Company has also entered into exchange rate swaps to protect against fluctuations in the US dollar which a significant amount of the Company's revenue is denominated in. At December 31, 1996, US$29 million in revenue was fixed at an average $CDN/$US swap rate of $1.3375 for 1997 and US$24 million for 1998 at an average swap rate of $1.3348.

Interest Rate Swaps

The Company entered into an interest rate swap on July 25, 1996 whereby it swapped a floating interest payment in exchange for a fixed interest payment at a rate of 6.27 percent including all fees on $20 million of the Company's floating rate debt from July 25, 1996 to January 25, 1998.

On settlement, these contracts result in cash receipts or payments by the Company for the difference between the contract and market rates for the applicable dollars and volumes hedged during the contract term. Such cash receipts or payments offset corresponding decreases or increases in the Company's petroleum and natural gas sales or interest expense.

At December 31 the unrecognized gains (losses) on the above swap transactions were as follows:

($ thousands)	1996	1995
Crude Oil Swaps	2,181	(452)
Exchange Rate Swaps	(442)	(31)
Interest Rate Swaps	(539)	(48)
Natural Gas Swaps	–	14

The above unrecognized gains (losses) are based on the market value of these financial instruments as at year end and represent the amounts the Company would receive or pay to terminate the contracts at year end. These instruments' carrying values are not recognized in the financial statements.

The Company may be exposed to certain losses in the event of non-performance by counterparties to these contracts. The Company mitigates this risk by entering into transactions with major international financial institutions with appropriate credit ratings and ensuring that this credit risk is not concentrated with a small number of counterparties.

7. Income Taxes

The actual income tax provision differs from the expected amount calculated by applying the Canadian combined federal and provincial corporate income tax rate to earnings before income taxes. The major components of these differences are explained as follows:

($ thousands)	1996	1995
Earnings Before Income Taxes	20,835	1,329
Canadian Statutory Rate	44.73%	44.57%
Expected Income Tax Expense	9,319	592
Increase (Decrease) in		
Income Taxes Resulting From:		
Non-deductible Royalties and Payments	7,172	6,330
Non-deductible Portion of Depletion	707	869
Alberta Royalty Tax Credit	(656)	(675)
Resource Allowance	(7,909)	(5,551)
Other	(83)	(13)
Deferred Tax Provision	8,550	1,552

The Corporation has the following deductions at December 31, 1996 available for future income tax purposes:

($ thousands)		Maximum Annual Rate of Claim
Canadian Exploration Expense	69,000	100%
Canadian Development Expense	37,000	30%
Canadian Oil and Gas Property Expense	101,000	10%
Undepreciated Capital Cost	63,000	20-30%
	270,000	

Approximately $27.0 million of the Company's tax pools are successored due to the change of control resulting from Corporate acquisitions and may only be claimed against future net production revenues from the acquired properties.

8. Subsequent Event

Effective January 1, 1997, the Company acquired undeveloped land, facilities and other assets in the Fort St. John region of northeast British Columbia for $45.4 million. As of December 31, 1996, $4.5 million had been paid as a deposit. The transaction was financed utilizing existing lines of credit. Concurrent with the transaction the Company's lines of credit were increased from $110 million to $160 million.

Quarterly information tables form SUPPLEMENTARY *data for 1996 and 1995 and are included with shareholder and corporate* INFORMATION *over the next pages*

1996 QUARTERLY

Encal Energy Ltd.

INFORMATION

Financial Highlights

($ thousands except per share amounts)	Three Months Ended 1996				Annual
	March 31	June 30	Sept. 30	Dec. 31	1996
Income Statement					
Petroleum and Natural Gas Sales	27,714	29,061	29,200	38,319	**124,294**
Funds from Operations	15,080	16,022	14,560	20,533	**66,195**
Per Share – Basic	0.15	0.15	0.14	0.20	**0.64**
Per Share – Fully Diluted	0.14	0.15	0.14	0.19	**0.62**
Net Earnings	2,278	2,319	1,366	5,555	**11,518**
Per Share – Basic	0.02	0.02	0.02	0.05	**0.11**
Per Share – Fully Diluted	0.02	0.02	0.02	0.05	**0.11**
Balance Sheet					
Capital Spending					
Land and Lease	2,701	4,994	3,594	9,292	**20,581**
Seismic	1,681	2,136	1,624	1,898	**7,339**
Drilling and Completions	9,350	4,278	13,216	14,285	**41,129**
Facilities	6,086	5,846	4,960	9,179	**26,071**
Property Dispositions	(1,976)	(1,064)	(4,398)	(4,905)	**(12,343)**
Property Acquisitions	515	1,141	9,128	13,861	**24,645**
Miscible Fluid and Other	641	523	332	362	**1,858**
	18,998	17,854	28,456	43,972	**109,280**
Net Indebtedness					
Long Term Debt	26,305	30,314	41,261	64,046	
Working Capital Deficiency	13,065	10,946	14,437	14,961	
	39,370	41,260	55,698	79,007	
Total Shareholders' Equity	252,206	254,525	255,891	261,962	

(thousands)	Three Months Ended 1996			
	March 31	June 30	Sept. 30	Dec. 31
Share Information				
Shares Outstanding at End of Period				
– Basic	103,835	103,835	103,835	103,992
– Fully Diluted	108,084	108,045	107,986	109,922
Weighted Average Shares Outstanding for the Period				
– Basic	103,835	103,835	103,835	103,900
– Fully Diluted	108,048	108,053	107,986	108,359
Volume Traded During Quarter	3,701	6,516	7,021	26,355
Controlled by Management and Directors	44%	44%	41%	40%
Public Float	56%	56%	59%	60%
Share Price *($)*				
– High	3.10	3.25	3.65	4.40
– Low	2.65	2.75	2.75	3.20
– Close	2.92	2.85	3.40	4.29
Equity Market Capitalization at Closing Price *($)*	303,000	296,000	353,000	446,126

1996 QUARTERLY

Encal Energy Ltd.

INFORMATION

Operational Highlights

	Three Months Ended 1996				Annual
	March 31	June 30	Sept. 30	Dec. 31	1996
Production					
Natural Gas *(mcf/d)*	90,817	102,347	109,185	120,306	105,713
Crude Oil *(bbls/d)*	5,680	5,331	5,271	5,447	5,432
Natural Gas Liquids *(bbls/d)*	1,477	1,795	1,858	2,068	1,800
Total *(BOE/d)*	16,239	17,361	18,048	19,546	17,803
Pricing					
Natural Gas *($/mcf)*	1.68	1.49	1.38	1.86	1.61
Crude Oil *($/bbl)*					
(before hedging gains/losses)	22.77	26.15	27.44	29.41	26.47
Hedging Gains (Losses) *($/bbl)*	(0.88)	(2.26)	(2.84)	(3.66)	(2.39)
Crude Oil *($/bbl)*					
(after hedging gains/losses)	21.89	23.89	24.60	25.75	24.08
Natural Gas Liquids *($/bbl)*	17.33	20.21	19.06	25.05	20.72
Royalties, net of ARTC *($/BOE)*	2.43	2.37	2.84	3.79	2.89
Operating Costs *($/BOE)*	4.40	4.12	4.33	4.29	4.29
Netbacks *($/BOE)*	11.93	11.89	10.42	13.23	11.89
General and Administrative *($/BOE)*	1.28	1.37	1.27	1.13	1.26
Depletion and Depreciation *($/BOE)*	7.06	7.14	6.98	7.12	7.08
Drilling Results *(Gross Wells)*					
Natural Gas	15	3	17	14	49
Crude Oil	11	11	12	20	54
Dry	7	5	9	19	40
Total Drilled	33	19	38	53	143
Drilling Results *(Net Wells)*					
Natural Gas	9.1	1.2	9.8	13.2	33.3
Crude Oil	3.6	2.2	7.8	11.3	24.9
Dry	3.5	2.7	6.1	13.2	25.5
Total Drilled	16.2	6.1	23.7	37.7	83.7
Success Rate *(%)*	78	56	74	65	70

1995 QUARTERLY

Encal Energy Ltd.

INFORMATION

Financial Highlights

($ thousands except per share amounts)	Three Months Ended 1995				Annual
	March 31	June 30	Sept. 30	Dec. 31	1995
Income Statement					
Petroleum and Natural Gas Sales	24,175	24,856	23,007	26,321	98,359
Funds from Operations	11,296	11,595	9,716	12,303	44,910
Per Share – Basic	0.11	0.11	0.09	0.12	0.43
Per Share – Fully Diluted	0.11	0.11	0.09	0.11	0.42
Net Earnings	9	51	(1,021)	(3)	(964)
Per Share – Basic	0.00	0.00	(0.01)	0.00	(0.01)
Per Share – Fully Diluted	0.00	0.00	(0.01)	0.00	(0.01)
Balance Sheet					
Capital Spending					
Land and Lease	2,553	1,507	3,095	527	7,682
Seismic	1,736	388	712	202	3,038
Drilling and Completions	11,299	2,139	6,800	8,052	28,290
Facilities	4,587	1,193	2,859	4,109	12,748
Property Dispositions	(3,838)	(1,687)	(5,111)	(10,000)	(20,636)
Property Acquisitions	1,736	105	2,272	3,415	7,528
Miscible Fluid and Other	691	417	345	308	1,761
	18,764	4,062	10,972	6,613	40,411
Net Indebtedness					
Long Term Debt	38,453	36,375	29,080	28,126	
Working Capital Deficiency	8,999	3,511	11,998	7,269	
	47,452	39,886	41,078	35,395	
Total Shareholders' Equity	250,597	250,710	249,829	249,928	

(thousands)	Three Months Ended 1995			
	March 31	June 30	Sept. 30	Dec. 31
Share Information				
Shares Outstanding at End of Period				
– Basic	103,728	103,747	103,801	103,835
– Fully Diluted	106,572	106,716	106,632	108,059
Weighted Average Shares Outstanding for the Period				
– Basic	103,488	103,743	103,777	103,813
– Fully Diluted	106,568	106,639	106,489	106,910
Volume Traded During Quarter	8,949	4,216	2,361	6,050
Controlled by Management and Directors	49%	45%	45%	44%
Public Float	51%	55%	55%	56%
Share Price *($)*				
– High	3.80	3.50	3.00	3.05
– Low	2.65	2.85	2.65	2.47
– Close	3.30	2.92	2.90	3.05
Equity Market Capitalization at Closing Price *($)*	342,000	303,000	301,000	317,000

1995 QUARTERLY

Encal Energy Ltd.

INFORMATION

Operational Highlights

	Three Months Ended 1995				Annual
	March 31	June 30	Sept. 30	Dec. 31	1995
Production					
Natural Gas *(mcf/d)*	106,367	102,185	101,372	98,970	102,201
Crude Oil *(bbls/d)*	5,202	4,931	4,967	5,841	5,236
Natural Gas Liquids *(bbls/d)*	1,462	1,527	1,499	1,399	1,472
Total *(BOE/d)*	17,301	16,677	16,603	17,137	16,928
Pricing					
Natural Gas *($/mcf)*	1.24	1.32	1.21	1.41	1.30
Crude Oil *($/bbl)*					
(before hedging gains/losses)	21.67	22.55	20.62	20.73	21.36
Hedging Gains (Losses) *($/bbl)*	–	(0.08)	0.44	0.24	0.15
Crude Oil *($/bbl)*					
(after hedging gains/losses)	21.67	22.47	21.06	20.97	21.51
Natural Gas Liquids *($/bbl)*	15.56	15.96	14.44	15.94	15.46
Royalties, net of ARTC *($/BOE)*	2.57	2.39	2.26	2.46	2.42
Operating Costs *($/BOE)*	4.00	4.38	4.73	4.73	4.46
Netbacks *($/BOE)*	8.91	9.51	8.07	9.50	9.04
General and Administrative *($/BOE)*	1.18	1.27	1.16	1.16	1.19
Depletion and Depreciation *($/BOE)*	6.91	7.21	7.23	7.33	7.17
Drilling Results *(Gross Wells)*					
Natural Gas	15	10	12	13	50
Crude Oil	8	16	17	11	52
Dry	16	3	6	4	29
Total Drilled	39	29	35	28	131
Drilling Results *(Net Wells)*					
Natural Gas	7.3	1.2	6.1	5.1	19.7
Crude Oil	4.9	2.8	5.7	8.3	21.7
Dry	11.3	1.4	3.7	1.5	17.9
Total Drilled	23.5	5.4	15.5	14.9	59.3
Success Rate *(%)*	52	74	76	90	70

HISTORICAL REVIEW

Encal Energy Ltd.

Year Ended December 31 ($ thousands except per share data)

	1996	1995	1994	1993	1992	1991	1990
FINANCIAL							
Petroleum and Natural Gas Sales	**124,294**	98,359	82,870	47,981	6,386	5,052	2,131
Funds from Operations	**66,195**	44,910	41,483	24,719	3,247	1,804	927
Per Share – Basic	**0.64**	0.43	0.51	0.59	0.16	0.09	0.06
Per Share – Fully Diluted	**0.62**	0.42	0.50	0.51	0.12	0.09	0.05
Net Income (Loss)	**11,518**	(964)	4,480	4,757	880	156	304
Per Share – Basic	**0.11**	(0.01)	0.06	0.11	0.04	0.00	0.02
Per Share – Fully Diluted	**0.11**	(0.01)	0.06	0.10	0.03	0.00	0.01
Net Capital Expenditures	**109,280**	40,411	198,305	130,961	5,480	1,263	11,558
Total Assets	**410,141**	346,102	348,243	147,027	18,979	14,097	14,198
Working Capital (Deficiency)	**(14,961)**	(7,269)	(14,297)	(2,584)	(1,793)	(794)	(996)
Long Term Debt	**64,046**	28,126	25,678	5,560	5,792	7,791	7,895
Shareholders' Equity	**261,962**	249,928	250,448	121,084	8,950	4,151	4,208
Weighted Average Common Shares *(Fully Diluted, thousands)*	**108,111**	106,651	83,911	61,654	26,917	20,635	20,385
OPERATING							
Production							
Natural Gas *(mmcf)*	**38,691**	37,303	27,851	18,156	3,060	2,729	788
Daily *(mcf)*	**105,713**	102,201	76,303	49,744	8,360	746	2,158
Average price *($/mcf)*	**1.61**	1.30	1.84	1.75	1.61	1.34	N/A
Crude Oil and NGL *(bbls)*	**2,646,912**	2,448,420	1,708,200	950,942	76,351	74,733	29,887
Daily *(bbls)*	**7,232**	6,708	4,680	2,605	208	205	82
Average Price *($/bbl)*	**23.24**	20.19	18.36	17.02	18.95	18.68	N/A
Proven plus Probable Reserves							
Natural Gas *(bcf)*	**520.1**	462.2	477.5	256.3	52.3	45.4	27.8
Crude Oil and NGL *(mbbls)*	**28,680**	26,053	23,077	12,497	1,521	1,340	715
Present Value *($ thousands discounted at 15% before income taxes)*	**456,000**	363,000	395,500	236,289	47,892	38,145	25,717
Undeveloped Land							
Gross Acres	**1,132,336**	1,137,573	1,463,131	1,132,700	60,281	43,770	60,686
Net Acres	**600,502**	501,041	638,982	423,100	19,963	12,654	17,588

Abbreviations and Definitions

AECO	– Alberta Energy Company (reference price for natural gas)
API	– American Petroleum Institute
ARTC	– Alberta Royalty Tax Credit
Bbls	– barrels
Bbls/d	– barrels per day
Bcf	– billions of cubic feet
BOE	– barrels of oil equivalent
Bopd	– barrels of oil per day
Btu	– British Thermal Unit
Condensate	– A mixture of pentane and heavier hydrocarbon that is gaseous in its reservoir state, but which condenses to a liquid at atmospheric pressure and temperature.
Mbbls	– thousands of barrels
MBOE	– thousands of barrels of oil equivalent
Mcf	– thousands of cubic feet
Mcf/d	– thousands of cubic feet per day
Miscible fluids	– Injection of hydrocarbon fluids into a reservoir to enhance the recovery of oil
Mmcf	– millions of cubic feet
Mmcf/d	– millions of cubic feet per day
US	– United States
WTI	– West Texas Intermediate, oil price reference set at Cushing, Oklahoma.

Metric Conversion Table

The Canadian Petroleum industry uses the International System of Units for measuring and reporting.
The following table notes conversion factors relevant to this report.

To convert from	To	Multiply by
Thousand cubic feet	Thousand cubic metres	0.028169
Barrels	Cubic Metres	0.159000
Feet	Metres	0.305000
Miles	Kilometres	1.609000
Acres	Hectares	0.405000

Registrar and Transfer Agent

The R-M Trust Company
600, 333 – 7th Avenue S.W.
Calgary, Alberta T2P 2Z3
Phone: (403) 232-2400
Fax: (403 264-2100

Stock Exchange Listing

The Toronto Stock Exchange
Symbol: ENL

Shareholder Contacts

Shareholders are welcome to contact the Company for information or questions concerning their shares. For general information about the Company, contact Mrs. Karen Ruzicki or Mr. Steven Allaire, Vice President Finance, at (403) 750-3300.

For information on such matters as share transfers and change of address inquiries should be directed to the Transfer Agent. The address and telephone number of the transfer agent are listed on this page.

Annual Information Form

Copies of the Annual Information Form are available to shareholders upon request.

French Material

Copies of the Information Circular, Notice of the Annual General Meeting, Proxy, Management Discussion and Analysis and Financial Statements are available in french.

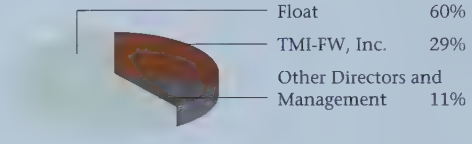
Dividend Policy

The Company does not pay dividends as cash flow is utilized to support current operations, exploration and development programs and to fund acquisitions of oil and gas properties.

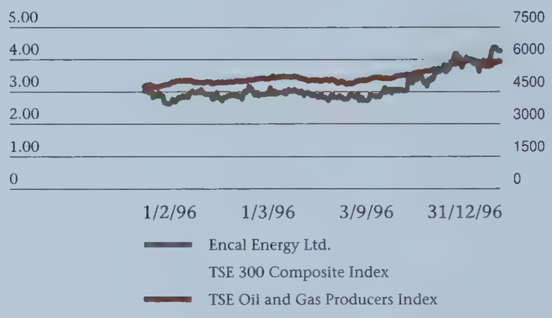
Annual Meeting

The Annual General Meeting of Shareholders will be held on Wednesday, May 7, 1997 at 3:00 p.m. in the McMurray Room, Calgary Petroleum Club, Calgary, Alberta

SHAREHOLDER COMPOSITION



ENCAL ENERGY LTD. VS
TSE 300 COMPOSITE AND TSE OIL
AND GAS PRODUCERS INDEX *($/share)*



Estimated Release Dates of Quarterly Results

First Quarter	April 25, 1997
Second Quarter	July 28, 1997
Third Quarter	October 28, 1997

Corporate Governance

A system of corporate governance for the Corporation has been established to provide the Board of Directors, management and shareholders of the Corporation with effective governance. A more detailed discussion of corporate governance is available in the Information Circular for the Annual and Special General Meeting of Shareholders.

Internet

Encal is on the internet. Look for our home page for access to recent press releases, quarterly reports and annual report information at Web Site: http://www.encal.com

Share Information

Common Shares

Outstanding December 31, 1996	
Basic	103,992,000
Fully Diluted	109,922,000

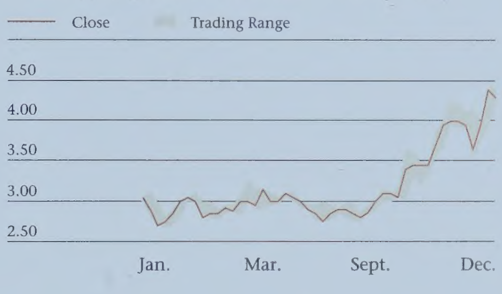
Weighted Average December 31, 1996	
Basic	103,851,000
Fully Diluted	108,111,000

Closing Price of Shares at December 31, 1996	$4.29
Market Capitalization (using December 31, 1996 closing price)	$446,126,000
Controlled by management and the Board of Directors	40%
Public Float	60%
Major Shareholders	
TMI - FW Inc.	30,074,139

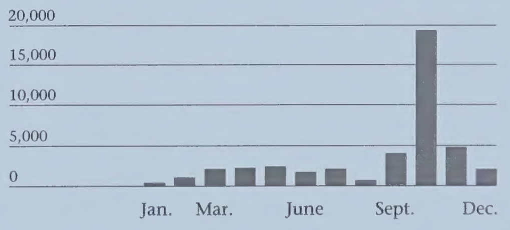
Share Trading Information

Volume of Shares Traded during 1996	43,593,357

1996 SHARE TRADING ACTIVITY *($/share)*



SHARE VOLUME *(thousands)*



CORPORATE

Encal Energy Ltd.

INFORMATION

Directors

Thomas M. Taylor*
Chairman
Encal Energy Ltd.
Taylor & Co.
Fort Worth, Texas

David D. Johnson
President and CEO
Encal Energy Ltd.
Calgary, Alberta

Robert G. Jennings#
President
Jennings Capital Inc.
Calgary, Alberta

Hon. E. Peter Lougheed
Partner
Bennett Jones Verchere
Calgary, Alberta

Harold P. Milavsky#*
Chairman
Quantico Capital Corp.
Calgary, Alberta

Byron J. Seaman#
Private Investor
Calgary, Alberta

Daryl K. Seaman*
President
Dox Investments Ltd.
Calgary, Alberta

** Members of Compensation Committee*

 # Members of Audit Committee

Officers

David D. Johnson
President and CEO

Steven A. Allaire
Vice President, Finance and CFO

Terrence R. Barrows
Vice President, Production

Peter A. Carwardine
Vice President, Land and Corporate Development

Michael R. Culbert
Vice President, Marketing

James D. Reimer
Vice President, Exploration

Gordon M. Adams
Secretary

Management

Robert S. Attwood
Manager, Information Technology

William V. Bradley
Manager, Corporate Development

Greg W. Chury
Manager, Land

Glenn A. Downey
Manager, Exploration

Arthur A. MacNichol
Controller

Robert R. Padget
Manager, Engineering

David K. Saul
Manager, Operational Accounting

Gordon B. Vogt
Manager, Joint Operations

Tim J. Wollen
Manager, Production

Corporate Offices

1800, 421 – 7th Avenue S.W.
Calgary, Alberta T2P 4K9
Phone: (403) 750-3300
Fax: (403) 266-2337
E-mail: invrel@encal.com

Bankers

Bank of Nova Scotia
Corporate and Energy Banking
3820, 700 – 2 Street S.W.
Calgary, Alberta T2P 2N7

Royal Bank of Canada
Oil and Gas Banking Centre
1100, 335 – 8 Avenue S.W.
Calgary, Alberta T2P 1C9

Solicitors

Parlee McLaws
3400 Western Canadian Place
707 – 8th Avenue S.W.
Calgary, Alberta T2P 1H5

Auditors

Ernst & Young
1300 Ernst & Young House
707 – 7th Avenue S.W.
Calgary, Alberta T2P 3H6

Consulting Engineers

Gilbert Laustsen Jung
Associates Ltd.
4100, 400 – 3rd Avenue S.W.
Calgary, Alberta T2P 4H2

Field Offices

4705 – 42nd Street
Stettler, Alberta T0C 2L0
Phone: (403) 742-4448
Fax: (403) 742-1210

10716 – 101 Street
Fort St. John,
British Columbia V1J 2B9
Phone: (250) 787-7974
Fax: (250) 787-7987

ANNUAL MEETING

The Annual General Meeting of Shareholders
will be held on Wednesday, May 7, 1997
at 3:00 p.m. in the McMurray Room,
Calgary Petroleum Club,
Calgary, Alberta.

All shareholders are invited
to attend, but if unable to,
are asked to fill out
the form of Proxy
and return it to R-M Trust.

Encal Energy Ltd.

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Calgary, Alberta T2P 4K9
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